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# The Province of Alberta

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IN THE MATTER OF "THE NATURAL  
GAS UTILITIES ACT"

—and—

IN THE MATTER OF an Enquiry into  
Scheme to be adopted for Gathering,  
Processing and Transmission of  
Natural Gas in Turner Valley

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G. M. BLACKSTOCK, Esq., K.C., *Chairman*

Dr. E. H. BOOMER, F.C.I.C., *Commissioner*

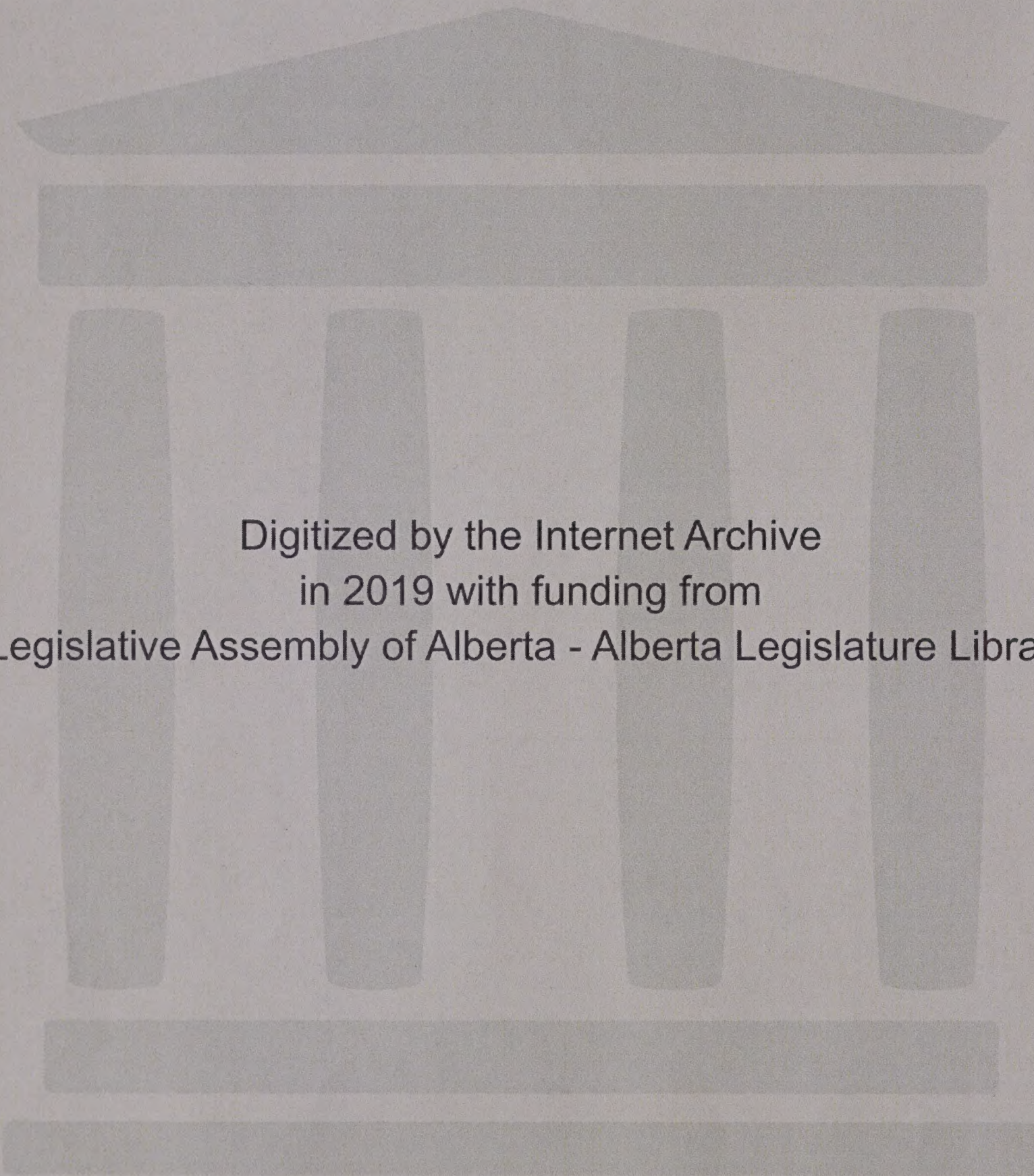
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*Session:*

CALGARY, Alberta June 26th, 1945.

VOLUME 30





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# I N D E X

## VOLUME 30

June 26th, 1945.

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### WITNESSES

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### E X H I B I T S

No.

89 Resolution of Alberta Petroleum Association. 2299

90 Explanatory Statement re Accounting Sheets  
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91 Revised Schedule "A"..... 2337

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9.30 A.M. Session  
June 26th, 1945.

MEMORANDUM OF CORRECTIONS OF TRANSCRIPT

VOLUMES NOS. 27 to 29 INCLUSIVE

EVIDENCE OF WILLIAM CLIFFORD KIRKPATRICK

VOLUME 27

<u>Page</u>	<u>Line</u>	<u>Correction</u>
2051	14	"Fifteen million c.f." should read "fifteen million Mcf."
2114	29	"the resulting profit" should read "the resulting income"
2116	14	"in an operating expense" should read "in an operating sense"
2118	29	"its surface plant cost" should read "its service plant cost"

VOLUME 28

2128	28	"it has been in five years" should read "it has been taken in prior years"
2134	2	"consider it is too" should read "consider it is too low"
2134	28	"it could be done in one or two days" should read "it could be done in one of two ways"
2137	27	"for the fall of the year" should read "for the following year"
2137	11	"this costs statement" should read "these cost statements"
2141	29	"the profit is apperent" should read "the profit is inherent"
2146	11	"prior to January 31st, 1941" should read "prior to January 1st, 1944"
2147	8	Delete "which" and substitute "if"
2147	10	Delete "indication" and substitute "implication"
2147	12	At the end of the line insert "it".
2147	15	After "Bow Island" insert "is at an end".
2147	17	After "to" insert "go to".







<u>Page</u>	<u>Line</u>	<u>Correction</u>
2153	24	Delete "enumerator" and substitute "numerator".
2163	9	Delete "that" and substitute "to".
2175	27	"it might as well be cancelled" should read "it might as well be installed"
2176	16	"ended product" should read "end product"
2187	12	Delete "saw" and substitute "said".
2188	11	Delete the period and substitute a comma.
2188	12	Delete the comma and substitute a period; delete "if" and substitute "If".

VOLUME 29

2222	2	"would be relative incidentally" should read "would be relatively incidental".
2236	11	"the \$631,000.00" should read "the \$63,000.00"
2242	20	"ask the" should read "call a".

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- 2297 -

MR. CHAMBERS: If the Board pleases there is one matter that I would like to deal with that came up when Mr. Kirkpatrick was giving evidence. One of the exhibits which covered the actual operations of Madison for the year 1944 showed, and properly so I submit, for the purposes of that exhibit, the actual income tax paid by Madison in respect of the year 1944, and Mr. Kirkpatrick intimated that in view of the general practice of Utility Boards in allowing income tax paid that Madison was asking for the full income tax, which worked out at more than 40 per cent on account of certain depreciation that would be absorbed or would be added to the income. I am authorized to state both on behalf of Madison and on behalf of Royelite, the investor, that in view of the fact that we are asking for a rate base on reproduction costs, that we are only asking for the income tax at the rate in the two income tax Acts, which is presently 40 per cent and may vary from time to time.

THE CHAIRMAN: That would have the effect of increasing your returns from somewhere around 7 per cent to a greater amount.

MR. CHAMBERS: For the year 1944, yes. In that connection I said the other day, my understanding was - of course the Board might have a different view - but so far as the year 1944 is concerned, Madison's profits or losses were not a matter in this picture and that whether that statement showed actual or estimated, or on the basis of 40 per cent, would not make much difference.

THE CHAIRMAN: You have something, Mr. McDonald?

MR. McDONALD: Yes. I was going to call, Mr. Chairman, something in respect of the South End pooling







Edward W. Kolb,  
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arrangement. I would like to put on record a resolution of the Alberta Petroleum Association. I do not suggest there should be any cross-examination at this time. I will call Mr. Kolb.

EDWARD W. KOLB, having been duly sworn, examined by Mr. McDonald, testified as follows:

Q Mr. Kolb, you are the secretary of the Alberta Petroleum Association?

A That is right.

Q And on the instructions of the Producers' committee of that Association, you sent out a notice to the operators and owners of wells connected with the British American plant, asking them to attend a meeting?

A Yes, I sent out a notice calling a meeting for the 5th, for Tuesday, the 5th of June.

Q What were the contents of the notice?

A Take notice that a special meeting of members of the Alberta Petroleum Association operating in the South End B. A. area will be held at the Renfrew Club on Tuesday, the 5th day of June at the hour of 3 o'clock in the afternoon to consider the following resolution:

"Proposed by the gas producers' committee of the Association, namely a resolution approving of the proposed method for accounting for gas stored by repressuring in the British American area. Copy of the report of the producers' committee in respect to the above resolution is attached hereto. It is essential that owners and operators of wells in the B.A. area directly affected by the implementing of the above resolution should be represented at the







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E. W. Kolb,  
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"meeting so that a fair expression of opinion of  
such operators may be held. Dated at the City  
of Calgary, in the Province of Alberta, this  
25th day of May, 1945."

Q And the meeting was held on June 5th?

A The meeting was held on June 5th and those in attendance  
were as follows - -

Q They are listed in the certified copy of the resolution  
that you are going to submit?

A That is right.

Q You have a certified copy of the resolution with you?

A Yes, I have a copy.

Q The original is signed?

A The original is signed.

MR. McDONALD:

I tender that as an Exhibit.

DOCUMENT IN QUESTION  
NOW MARKED EXHIBIT 89.

Q Are you qualified to discuss this resolution from the  
technical end?

A I don't think so.

Q The proposal was prepared by the committee appointed by  
the association?

A Yes.

MR. McDONALD:

We will call, Mr. Chairman, later  
an engineer who can read the resolution in and discuss it.

THE CHAIRMAN:

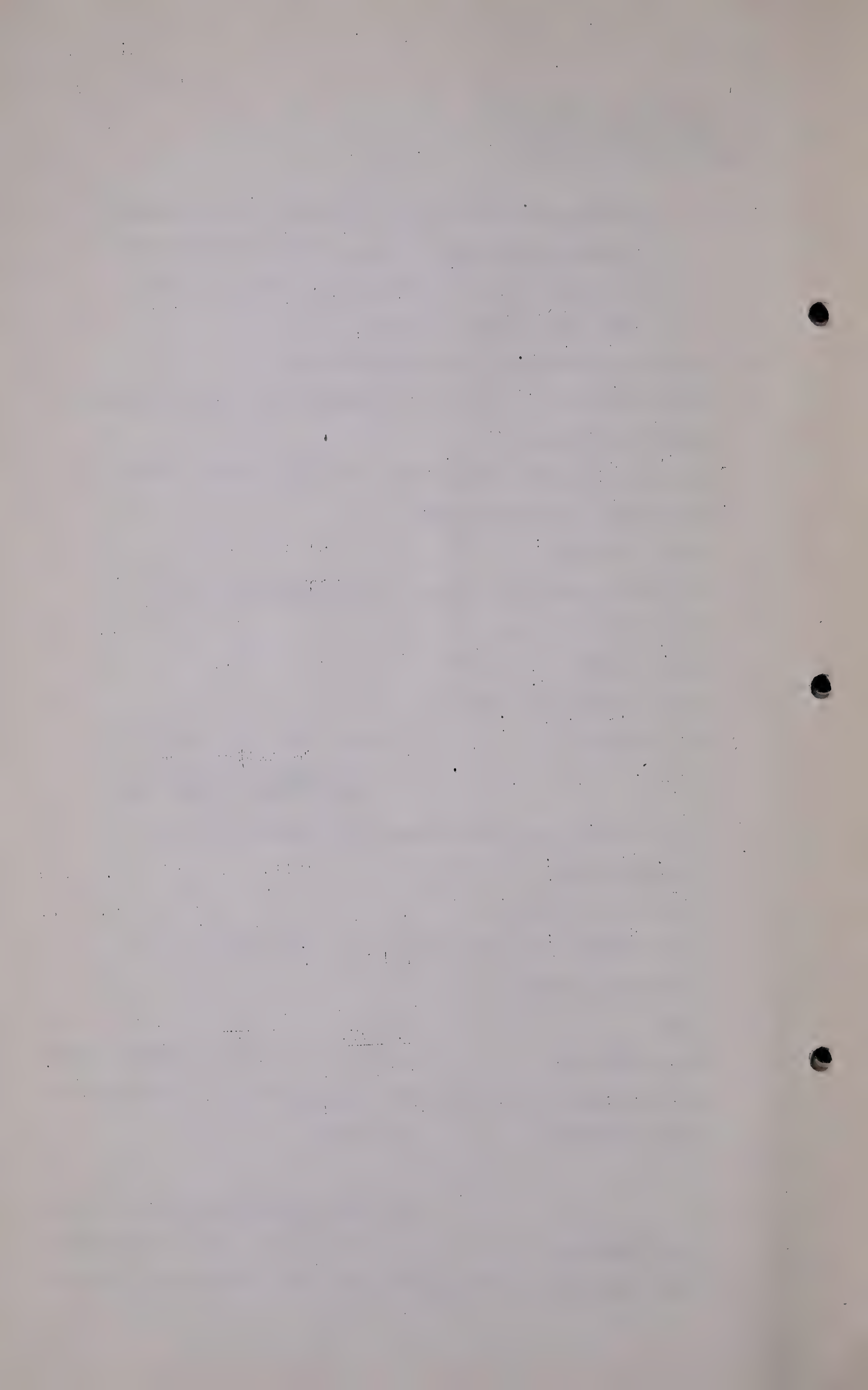
All right.

H. LeM. STEVENS-Guille, recalled.

MR. CHAMBERS:

I think when we rose on Thursday,  
Mr. McDonald was cross-examining this witness, but in the







H. LeM. Stevens-Guille,  
Exam. by Mr. Chambers.

- 2300 -

meantime at the suggestion of Dr. Boomer he has prepared an explanatory document which he suggests should be included in Exhibit 87. Will you just explain that, Mr. Stevens-Guille?

A The idea of preparing this was given to us . . . . .

THE CHAIRMAN: Had you not better make it another exhibit, Mr. Chambers?

MR. CHAMBERS: All right.

EXPLANATORY STATEMENT NOW  
MARKED EXHIBIT 90.

Q THE CHAIRMAN: What do you call it?

A It is a description of the statement showing the monthly accountings, which were Exhibit No. 87. We thought this might be a handier form to have the information in than for me to read it into the record column by column. Does that meet the point you raised, Dr. Boomer? There is one description for each of the three accounting sheets.

Q MR. CHAMBERS: That is a description of the three accounting sheets which are Exhibit 87?

A That is correct.

DR. BOOMER: This is fine.

MR. CHAMBERS: I do not propose to have it read unless the Board or some member before the Board would like to have it read. You recall Mr. Stevens-Guille did not read Exhibit 87, for reasons that were apparent and this more or less just explains the headings of the columns.

THE CHAIRMAN: Yes, that is right. I remember now. Dr. Boomer asked what were the headings of the various columns in the accounting statement and this is an explanation of that. There is no need to read that in.

MR. CHAMBERS: I have no questions to ask.







H. LeM. Stevens-Guille,  
Exam. by Mr. Chambers.

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MR. BLANCHARD: Is this a description of the . . .

MR. CHAMBERS: Of the column headings.

MR. BLANCHARD: One, two and three?

A That is correct. There is one for each. If you will check your sheets you will see the first one is headed "Share of Market" and that is No. 1, which goes column by column over the whole of that Sharing the Market sheet. If you turn to page 3, you will see that is for the statement showing Monthly Accounting for Wet Gas Processed.

Q That is No. 2?

A That is No. 2 and it goes column by column through that sheet, which just occupies one page. Then the next page starts with a description of the statement showing monthly accounting for the purchase of residue gas. That goes through column by column which takes three sheets, which completes Exhibit 90.

THE CHAIRMAN: Are you ready to go on, Mr. McDonald?

MR. McDONALD: Yes.

Q MR. CHAMBERS: My instructions are that the first sheet of Exhibit 90 refers to the sheets that are marked No. 2 in Exhibit 87, is that not right?

A That may be so. I refer to it as the statement for the share of the market. I have not a set of the three sheets here.

Q My instructions are that sheets Exhibit 90 or the first part of Exhibit 90 deals with Sheet 2 in Exhibit 87 and that the third sheet of Exhibit 90 deals with Sheet 1 of Exhibit 87.

A I do not know whether everybody marked their three sheets







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H. LEM. Stevens-Guille,  
Exam. by Mr. Chambers.

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in Exhibit 87 the same, so let me just read the titles against the numbers so that there will be no confusion.

No. 1 was the accounting statement for wet gas processed.

No. 2 - share of the market.

No. 3 - accounting made for residue gas purchased.

The same headings have been used on this description column by column, which is Exhibit 90, but the order of the sheets is not the same as the order of the three sheets in Exhibit 87. They could be detached and reconnected in the right order.

THE CHAIRMAN: Each one has the same heading as the heading in Exhibit 87?

A Yes, these are the same headings but we did not have them put up in the right order.

(Go to page 2303)







Mr. Stevens-Guille  
Cr.Ex. by Mr. McDonald

-2303-

Q MR. MCDONALD: Now as I understand it, Mr. Stevens-Guille, the accounting statements filed as Exhibit 87 show the practical application of the scheme of market sharing which you have set out in M-5, Exhibit 86?

A That is correct.

Q I am interested particularly in the gas cap at this time and as I understand it the principle that is followed is that the gas cap wells connected, which are now connected with the system, and could produce at no additional expense if they actually produce their share of the market, - there are no connections to be made to them or no extra expense involved?

A You are dealing with the Royalite gas cap principle?

Q Just the Royalite?

A There are some wells in the Royalite gas cap which at the present time are not physically connected with laterals to the main which do receive an allowable I believe.

Q Is there any particular difficulty about connecting them if it was necessary to do so?

A Not at all, it is just a matter of laying the necessary lines.

Q Are those particular wells, wells that the allowable has been taken from one or more of a group?

A Yes, those are one which have been grouped in giving the allowables.

Q So that under a Conservation Board order their allowable is still available to the market through the wells producing through the group?

A That is correct.

Q Now the proposal as I understand it from the Royalite Company is that those wells are entitled to produce and share in the market, under the Act?

A I understand that is so. Of course the application for







Mr. Stevens-Guille  
Cr.Ex.by Mr. McDonald

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allowables is a matter for Royalite and not for Madison.

Q Yes, and in the scheme as shown by these statements the gas cap was carried through in the sharing position to the extent of its Conservation Board Allowable?

A That is correct.

Q Yes. Now then I observe as we go through the accounting statements that there have been deductions from the total gas cap allowable for shrinkage in the absorption plant and fuel, shrinkage and fuel?

A Computed shrinkage to bring it from a wet gas to a residue gas basis.

Q As it is computed?

A That is correct.

Q Now you might look at No.2 of Exhibit 87?

A Just what number, I have not them in that order.

.. No.2?

A Yes, I have it.

Q Now as I read Exhibit 87 taking the total gas cap allowable column at the bottom or about the middle of the page, the total gas cap allowable is seven hundred and eighteen thousand two hundred and seventy?

A In which column are you on.

Q No.I, the third column, total gas cap allowable?

A Oh yes, the first, second, third, fourth and fifth figure from the bottom.

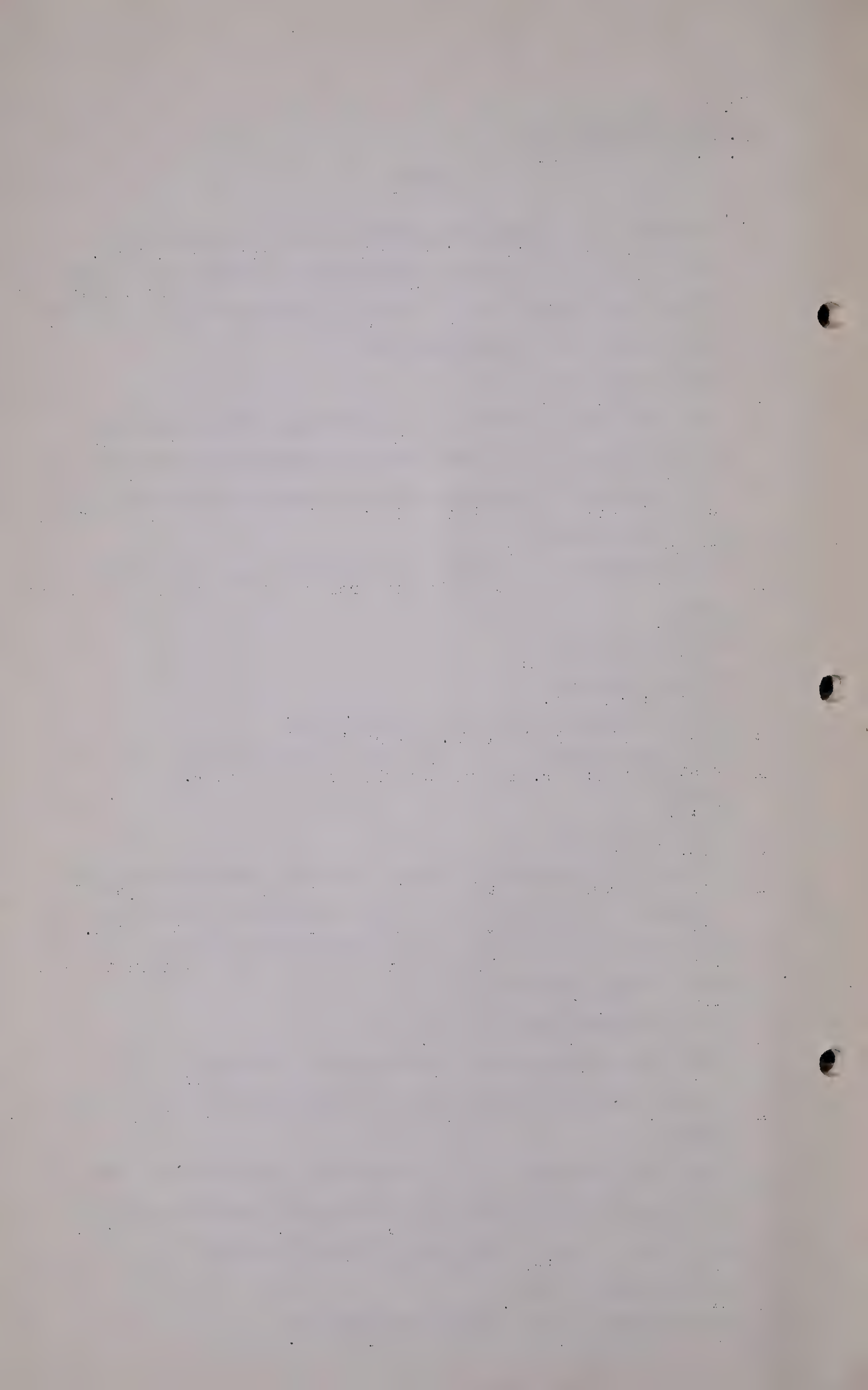
Q Yes, and in column 2 which provides for gas which had been popped to the air at Madison Station #3, from the gas cap?

A Popped to air, fuel and metering difference.

Q At the number three?

A At the number three Compressor Station.







Mr. Stevens-Guille  
Cr.Ex. by Mr. McDonald

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Q Leaving the wet gas available for the gas gathering system at the No. I Plant seven hundred and fifteen thousand four hundred and forty-two?

A Yes. Well wait one moment, that column heading does not carry right down to the bottom. Just let me make certain of that, that column heading does not carry down to the bottom, that gas cap allowable figure is cut off at the middle there, is it not.

MR. CHAMBERS: Yes, it carries right down.

THE WITNESS: Yes, that is correct. I just wanted to make certain. I did not prepare the sheet.

Q And then the calculations and computations made for shrinkage?

A That is correct.

Q In the next two columns?

A That is right.

Q Leaving the residue gas factor at six hundred and thirty-three thousand seven hundred and forty-nine?

A That is right.

Q And leaving the raw gas factor at six hundred and thirty-three thousand seven hundred and forty-nine?

A That is right.

Q And leaving the raw gas available for the plant at six hundred and three thousand eight hundred and twenty-five?

A Correct.

Q And then am I correct in saying that none of that gas has actually been produced at that point, - maybe I should not say that?

MR. CHAMBERS: Some of it has been produced.

MR. McDONALD: As a matter of fact forty-four thousand six hundred and forty-one M.C.F. has been produced.

MR. HARVIE: Where do you get that figure.



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Mr. Stevens-Guille  
Cr.Ex.by Mr. McDonald

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MR. MCDONALD: That is in the next, from Table 3 .

MR. CHAMBERS: One shows the actual.

THE WITNESS: Of course this sheet 2 is the sharing of the market so we are utilizing the gas cap allowable figures at this point because that is the figure upon which the sharing of the market is predicated.

THE CHAIRMAN: Mr. McDonald, perhaps at this point, although I believe it is already on the record, I would like again to understand the difference between the 603,749 and the 603,825.

MR. MCDONALD: Yes.

THE CHAIRMAN: Not being technical I am afraid I failed to get that again.

Q MR. MCDONALD: You might explain that Mr. Stevens-Guille:  
A The difference between those figures would be the gas caps share, computed share, of the shrinkages and fuel requirements of the scrubbing plant I think. I would just like to check that. I did not prepare this sheet and I am not fully informed about all these figures. Is that correct? Yes, now 603,825 that is adjusting it from the factor basis to the actual position. The first explanation I gave was incorrect. The residue gas is obtained by factor, the factor giving weight to the different G.P.M. or gasoline content of the wet gas from different wells and then the residue gas obtained in that manner for each well is corrected to the actual residue gas as metered in the Plant and of course we are now on the share of the market position and we have brought the actual figures back from the other sheet to the share of the market figures to obtain the computed shrinkage and loss by fuel for the gas cap in order to bring that gas cap figure to a proper basis from the original allowable







Mr. Stevens-Guille  
Cr.Ex. by Mr. McDonald

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which was in a wet gas form. Is that a clear explanation? Actually you see the gas cap gas in this month of May, except a small amount as you mentioned as purchased, but largely it is not purchased. Therefore we have to arrive at the computed basis for the volume which would be available for the share of the market had the gas cap gas been produced to that market.

Q MR. MCDONALD: It might be helpful to the Chairman if you would point<sup>out</sup>/that the G.P.M. in Column 4, the G.P.M.item, the first one .33, now was that an actual test during the month of May?

A No not necessarily. The present agreement is that the gasoline content of the wells will be checked once a year.

Q Yes?

A But if the operating conditions of a well indicate that there may have been a change then either at the election of the producer or of the plant operator a new test is made and if there is a change then the new test is of course used.

Q Then the residue gas factor, take that 88.6, that is obtained by what calculations?

A That is taken from the table which is contained in Madison's report M-16 I think it is which will be submitted later and in the Madison wet gas contract with the producers this table is given and we use that table at the present time.

Q That is a factor established by contract?

A Established by contract and our table is based on the N.G.A.A. contract table which is a standard contract, which is the Natural Gasoline Association of America.

Q And then I take it the next one, "Residue gas volume by factor, M.C.F.", it is the third column multiplied by the factor?

A That is correct.





Mr. Stevens-Guille  
Cr.Ex. by Mr. McDonald

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- Q And the next one "Raw gas available for scrubbing plants, M.C.F." is the actual figure available?
- A That is the figure that was obtained through use of the factor 88.6 which reduced the volume to 7,278, adjusted down in proportion as the theoretical figure was found to be to the actual volume in plant operation.
- Q Then the purpose of the calculation is, as I take it, that if the theoretical application of the G.P.M. Test and the factor results in more gas being available than actually is available, the adjustment is made down to that?
- A Correct. That is correct and equally if there is less gas it brings it into adjustment from either direction.

(Go to page 2309)





H. LeM. Stevens-Guille,  
Cr.Ex. by Mr. McDonald.

- 2309 -

Q And equally if there is theoretically less gas than there is actually then the Madison Company or Royalite or whoever is involved in paying out the money will pay out the greater amount ?

A It will actually pay on the volumes/as a physical fact.<sup>handled</sup>

Q So that to put it in a nutshell it is a reconciliation of individual wells to a group of wells to actual conditions ?

A That is correct. It brings what is a theoretical method for giving weight to the different gasoline content of the different wells into adjustment with actual volumes handled and gives the accounting therefor complete in numerical values.

Q Now then you carry this 603,825 in column seven through to the column nine. That is the net raw gas available to the scrubbing plant ?

A That is correct.

Q And that figure 603,825 is the basis for the sharing position of the Royalite gas cap in the market ?

A That is correct.

Q Now then theoretically we carry over to the last column of No. 2, 314,892 is the actual gas which the Royalite Gas cap theoretically should deliver to the market ?

A That is correct.

Q Now could you just tell me offhand is that the net scrubbed gas figure on the last column 3 ?

A You mean the outlet measurement on the outlet of the plant or the inlet that is measured on the inlet as it says in the last column but one, net gas available for scrubbing plant and the sharing of the market was based on that figure. Of

I have been thinking of you very much lately  
and wondering how you are getting on.  
I hope you are well and happy.

I have been very busy lately  
but I have managed to find some time  
to write you a few lines.

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and wondering how you are getting on.  
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H. LeM. Stevens-Guille,  
Cr.Ex. by Mr. McDonald.

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course it is equally true if it is based on the outlet gas the losses are proportionately through the scrubbing gas.

Q That was the point I was coming to Mr. Stevens-Guille. If that sharing market figure 314,892 is the inlet figure for the Royalite Gas cap, it then follows that shrinkage in the scrubbing plant will be proportioned back against that figure. Is that not so. I just wanted to see in your accounting where that has been done ?

A Well it is immaterial of course whether it is done on the inlet or the outlet of the plant, if it is proportioned to everybody. I will just have to check which way it was done here because we have done it in two different ways just to make simplicity in the mechanical handling of the figures. In the month of May it was done on the inlet but you will appreciate the point it is all proportioned and the answer is the same whether you do it on the inlet or the outlet.

Q Well now you go to Table #3 accounting made for residue gas purchased. Take column 14. You will find the figure 314,892 carried over from the share of the market. You have that. It is on the first line up from the bottom, total gas cap on the left hand column is in column 14, 314,892. Then carrying over to column 16 on the same line you deduct the actual deliveries to the market from the gas cap, giving you a net of 270,445 in the column 22, gas sold to the market ?

A That is correct.

Q Well does that not mean then that the 270,445 which is a theoretical sharing in the market is on a net gas basis or at the outlet of the scrubbing plant and not the inlet ?

A What you are suggesting, if I understand your question, is that





H. LeM. Stevens-Guille,  
Cr.Ex. by Mr. McDonald.

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the proportionate deductions for shrinkage -

Q In the scrubbing plant.

A And fuel for the scrubbing plant has not been made from the gas cap volume ?

Q Yes.

A I do not think that is correct but I will check it. It is the same answer as I gave just now. It is done proportionately on the inlet which is the same mathematically as doing it proportionately on the outlet. I think we are going into the intricacies of doing this sheet. I think we could establish the fact that is so if we could get busy with a pencil and figure. Quite frankly I did not prepare these sheets and I have not the facility for pulling off the figures from 1, 2 and 3 and showing you.

Q Well I do not want to get too troublesome, but I calculate that has not been done. That the theoretical gas cap allowable has been carried through right to the point where the money is paid for the gas and that shrinkage has not been allowed or deducted with regard to the scrubbing plant ?

A Well that certainly is not our intention and I do not think from what our accountant says that is what has actually happened. I do not know that I can demonstrate it from these but I think if you could leave that open we would like to satisfy you if the Chairman is agreeable, at a round table, where we could have the accountant show how it is done.

THE CHAIRMAN: And then get it on the record ?

A Yes.

MR. CHAMBERS: I am instructed, Mr. McDonald, that the





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H. LeM. Stevens-Guille,  
Cr.Ex. by Mr. McDonald.

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last column of sheet No. 2 of Exhibit 87, which is headed, Share of the Market, m.c.f. is a total of 1,162,421 is computed at the outlet of the scrubbing and you find that same figure in the summary at the bottom of the page which is actually still 1,162,421. And that 314,892 which is a sub-total for the Royalite gas cap is the outlet of the scrubber.

Q MR. McDONALD: The point I want to make Mr. Stevens-Guille, that it is the intention of Madison to deduct from the theoretical total gas cap allowable of Royalite gas cap shrinkage in the absorption plant and shrinkage including -

A Computed shrinkage.

Q In the absorption plant and computed shrinkage in the scrubbing plant ?

A That is correct.

Q So that the gas cap allowable will bear its proportion on a computed basis on all the shrinkage ?

A That is correct.

Q Well now there is just one thing I have still in mind.

MR. HARVIE: May I ask, did you say that is what is being done or that is shown as being done ?

A His question was, is that our intention, and I said that was correct.

Q You do not know whether it is done that way in the statement ?

A So I am advised by the accountant. I cannot say of my own knowledge I have followed it through because as I have already said I did not prepare the sheet.

Q I am in the same quandary as Mr. McDonald. I was unable to follow it through that way and I was wondering if we could get an explanatory statement ?





H. LeM. Stevens-Guille,  
Cr.Ex. by Mr. McDonald.

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A My suggestion is, if the Chairman is agreeable, we might meet afterwards and have the accountant demonstrate that and read it into the record.

Q MR. McDONALD: Now there are other losses which would go into account if the gas cap was actually operated. What I have in mind is lease loss and blow downs on the lease. Has there been any allowance for such a calculation in these accounting statements. I might point out to you Mr. Stevens-Guille why that comes into my mind. I think it is in your M-2 revised or in some of the calculations in regard to the market or reserves, that you make a theoretical allowance of 15% for plant losses and shrinkage and  $2\frac{1}{2}\%$  allowance for lease loss. Now have you given consideration to making a similar allowance in those calculations ?

A No Mr. McDonald, that  $2\frac{1}{2}\%$  for lease loss in our reserve estimate was to arrive at the amount that would actually be available to the market from the wet gas reserves as calculated by the petroleum engineers. In actual practice the amount of gas blown to waste at the leases never passes through Madison meters and it therefore never enters into the Madison accounting at all.

Q But that gas theoretically at least should be metered as against the conservation allowable for those particular wells ?

A That is a different point Mr. McDonald. It is taken into account in reporting to the Board, as I understand it, by Royallite to the Conservation Board. This is in reporting the production of that gas cap well.

Q So that would be a deduction then from the 718,270, being the gross allowable of those wells fixed by the Conservation Board ?





H. LeM. Stevens-Guille,  
Cr.Ex. by Mr. McDonald.

- 2314 -

A If it was being operated but it is not so sustained until such time as it is operated and at the time it is operated that of course automatically will come into the picture.

Q But is not the problem here that these wells should have that theoretical sharing position in the net ultimate market, that they would have if they had been operated.

A Insofar as it is practicable but I think in that case it is definitely a loss that is not sustained until such time, that time will come when the well is produced and then it automatically goes into the picture. If you take it off now and then take it off then it will be suffering that loss twice.

THE CHAIRMAN: I am not clear and I may be quite wrong. Instead of this gas that you are now speaking of as now conserved and your share of the market comes from other operations does it not suffer a loss there.

( Go to Page 2315 )

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Q Well the gas that is conserved is displaced in the market by gas produced from crude oil wells, and if there is any gas at a crude oil well that does not enter into the accounting either, it has not been delivered into our system.

THE CHAIRMAN: I can see Mr. McDonald's point, but I cannot quite follow it through. Theoretically you are correct, that that loss will not be sustained until that gas is actually produced, but there is a relative loss some place else while this is going on, as there must be. Now again I am going to ask if that is not a matter that could be discussed with engineers and cleared up.

Q MR. McDONALD: Maybe if I put it to you this way, Mr. Stevens-Guille, the crude which is being delivered to the Madison system is being taken into the accounting system on actual deliveries?

A That is correct.

Q There is no bearing whatsoever on the allowable of those crude wells as fixed by the Conservation Board?

A There is some bearing, but from your point of view I think it is fair to say that that is independent of the actual volume.

Q In other words, if a well should exceed its allowable for a day or two, you would not cut that well back to its allowable and say we have taken your gas but we will not pay for it, you take the gas as it is received, metered into your system.

A You mean we would not allow the gas that it produced to share into the market?

Q Yes?

A No. We do not propose to take that into account, that is I believe, a matter that the Conservation Board will handle.

Q So that when that gas is produced at the crude well, any





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lease losses, as it were, are out of the picture there again?

A Well I would like to break down that lease loss into two different things. One possibly is the amount being flared for some reason, and the other being the amount that is utilized.

Q At the lease?

A Yes, at the lease. We do not take account of either of those two things.

Q You do not take into account either of those two things?

A No.

Q But as I understand it in the gas cap allowable as used in this calculation, you have made no allowance for that particular type of loss if the gas cap well had been actually operated?

A That is correct. We have made no deductions for any theoretical volume of gas lost in blowing down a well.

Q Can you, from your experience, tell us what would be a fair allowance of that kind if it was deemed advisable to make it?

A Well, actually the volume, the actual volume, I believe, speaking from memory, estimated, of course, it is, as you know you cannot measure it.

Q yes?

A The estimated volume of blow down for the Royalite Gas cap is something under 1%. I am speaking from memory and I am subject to correction on that.

Q Now would there be any extensive use of fuel at these leases for the power, boilers?

A No, there is no use of gas for fuel actually on the gas cap leases. There is a small volume of gas used for fuel on





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the gas gathering heaters on the gas gathering system, but those heaters are common to more than one well. They are not located on each lease. They are located at several strategic points on the system as a whole.

Q As I understand it, would it approach the amount of gas that is being blown, the amount used for fuel, would it approach the amount actually used in blowing wells.

A No. I think our last estimate on that ran it about, well, I have not got it in terms of the gas cap produced because, of course, that fuel does not merely heat the gas cap gas it heats any crude oil gas passing through the system, so that I could not give you a figure, and it would be less than 1%, and down to less than a half a per cent. It is a very small total.

MR. CHAMBERS: Mr. McDonald, it struck me with  
+  
regard to Sheet 2, Exhibit 87, there was a deduction there.

MR. McDONALD: That is in Column 2?

MR. CHAMBERS: No, in the calculation at the bottom.

WITNESS: That what is shown is bearing on what I have mentioned now, the proportionate part of the total gas blown in the system, that is the fuel to the gas gathering system. That is the fuel.

Q MR. McDONALD: That is the fuel?

A Yes, no blowdowns.

Q Is it separate from your calculations?

A Yes, as distinct from the blow down.

Q But there is no theoretical calculation in this for blow downs?

A Yes, there is no allowance for blow downs, that is correct.

Q Well now, handling this gas, if it was produced from the gas





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cap, there would be the blowing which is not taken into account, there would be fuel and shrinkage in the absorption plant, which is taken into account, and if this gas was actually in the lines and had arrived at the outlet of the absorption plant, I notice by the accounting that the crude gas, some crude gas has been flared. Now if this included, or if this gas cap gas was actually flowing in this line, would there be any flared gas?

A There would be no gas cap gas flowing in the line at the time we flare gas, because before we flare gas we shut the gas cap well off.

Q That is the actual operation?

A That is the practice that is closely followed. Let me make it clear now, so that there will be no misunderstanding. There can be days in the month, and even hours in the day, - let me put it another way. There will be actual days in which during some hours there may be gas cap gas produced, and at other hours the load requirements may make it necessary to flare gas beyond the two things there or rather the two things are never going on contemporaneously, and that is due to the highly fluctuating loads we have to handle.

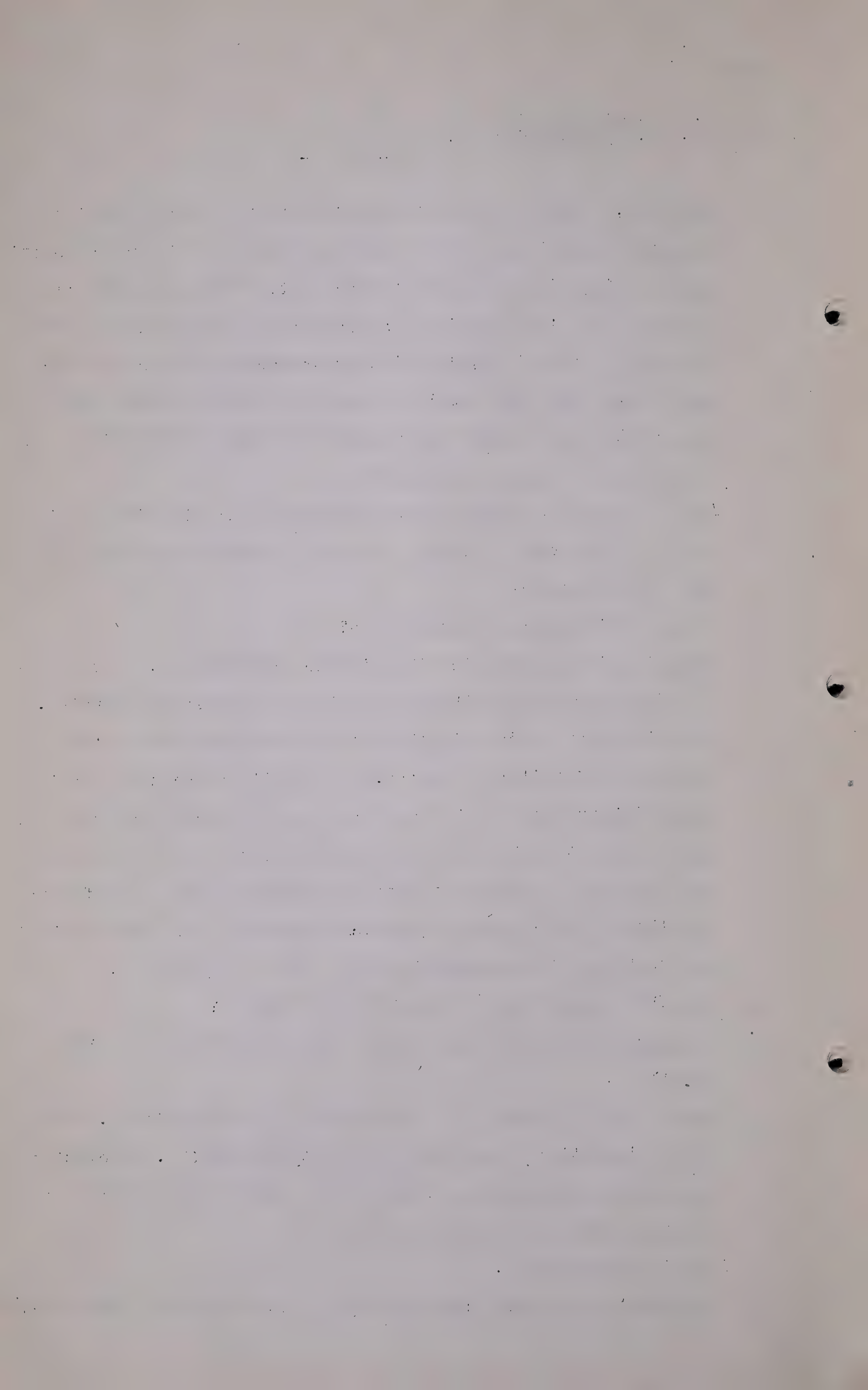
Q That is illustrated in this month of May?

A I could not say for sure whether there would be such days there.

Q Now we go to Column 10, Statement 2 of Exhibit 87. Column 10 is entitled "Less Excess Gas to Flare MCF". Now that gas has been prorated. The flared gas has been prorated back to each of the crude wells?

A That is correct.

Q And then to the gas prorated back to the Madison's connected





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crude wells, has been added the gas flared which has been attributed to the Gas & Oil Refineries' plant, 972, down to the bottom of the column, making a total of 7990. Now, as I understand it, there was just one flare there at the Madison plant?

A That is so.

Q That is true?

A Yes.

Q The flared gas there referring to G.O.R. plant has no relation to the gas that may be flared at the Gas & Oil Refineries' plant?

A That is correct. That does not pass through our meters, and it has not entered into our accounting at all.

Q That has not entered into your accounting at all?

A No. That is the volume flared there.

Q Now, we go to the bottom of the page, near the bottom, there is a heading "G.O.R.". No, pardon me. A heading "Excess to Flare", and flared at B.A. on Madison account, 2724, and flared at main plant, 5266, which makes up your total of 7990.

THE CHAIRMAN: Just a minute, Mr. McDonald, we have not got that.

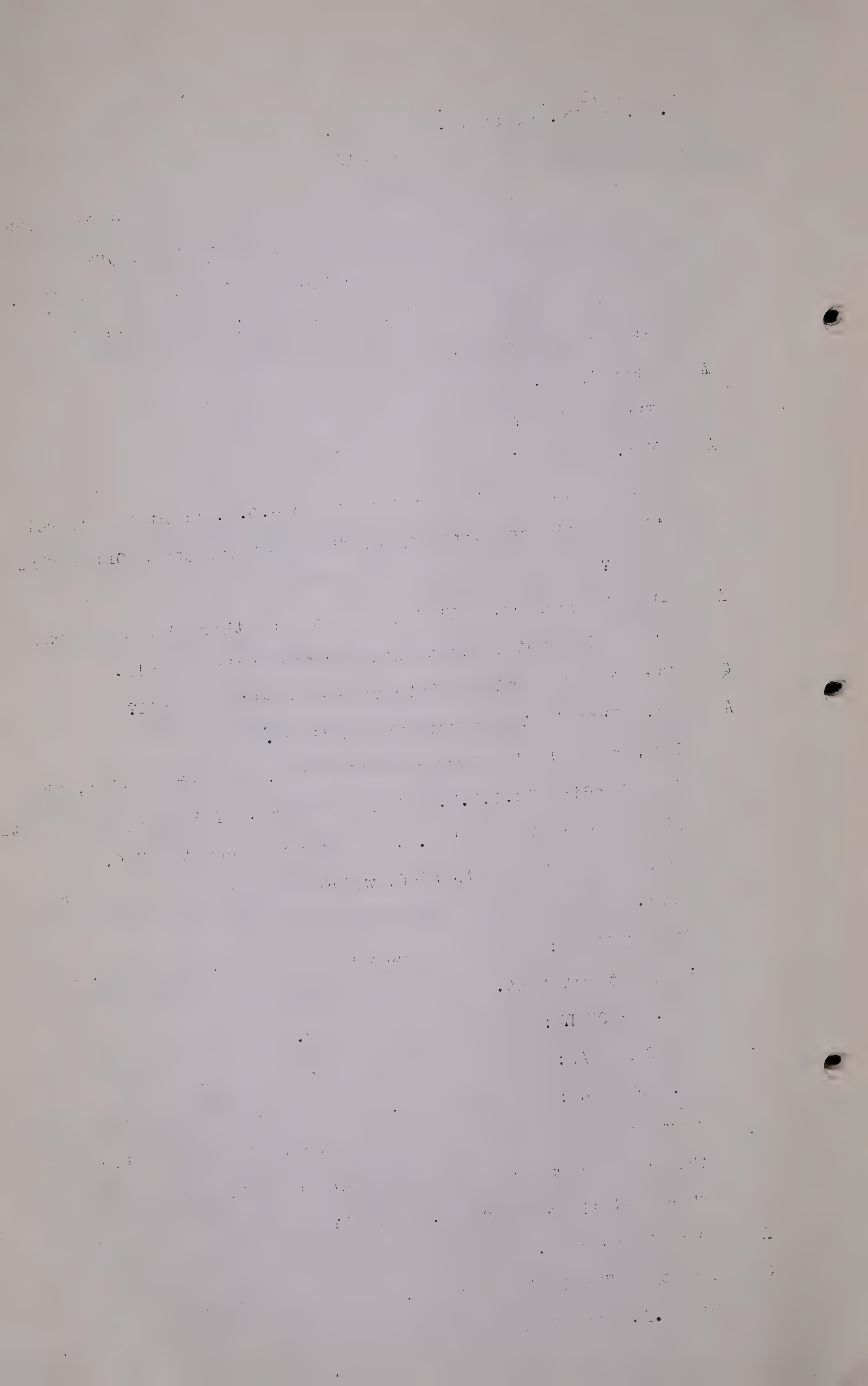
MR. McDONALD: I I am sorry.

THE CHAIRMAN: Yes, we have it now.

Q MR. McDONALD: Mr. Stevens-Guille, could you explain or would you advise me if that is correct? That flared at the main plant means that 5266 was all that was actually flared at the Madison No. 1 plant?

A That is correct.

Q And the 2724 is theoretical, the gas is actually flared at the B.A. plant?





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A That is so.

Q At the request of Madison?

A That is correct.

Q And that 2724, what happens to that calculation from there on, do you know?

A Well, perhaps I had better just explain the circumstances under which that was done. It was done in the attempt to keep the amount flared to a minimum by utilizing to the maximum all the installed compressor capacity, and on that occasion Madison requested B.A. to go below their sharing position, and to return as much gas to the gas cap in their area as they could, because due to unit sizes in that way there would be less gas flared than if Madison had let B.A. deliver to the scrubbing plant their sharing position and then flared the excess gas that happened to be available that day, over and above the market requirements. Now we have found that any attempt to carry out, we have found that in attempting to carry out there the Board's request to the utmost, we have gone beyond really what is practical to handle from an accounting point of view. That was just tried on one day, or actually small amounts on two days, and the practice has now ceased and will not be used again. It only becomes a problem of accounting. That is why we have ceased to do it. It actually flared that day less gas than would have been flared had it been done at the Madison plant and that is just due to volume sizes, volume capacities of different compressor units, and it will only appear on this May sheet.





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Q The reason I raised it is that on taking the figures for Table 3, I find in Column 10 that the gas, at the bottom of the column, less gas flared used in the actual calculation of accounting for residue gas is only the 5266 figure.

A Yes.

Q And not the 7990.

A Well that is following our submission that gas that has been flared does not enter into the sharing position.

Q Should not you have taken off in this particular month of May the 7990. Who is penalized with the 2724?

A Well supposing, Mr. McDonald, instead of flaring that 2724 at the B.A. plant, we had flared that at the Madison.

Q Yes, that is true. You should have taken it off in your calculation here, should you not. Instead of taking the 5266, which you actually did flare, to make the accounting theoretically correct, you should have taken out the 7990.

A Just refer me again to the column you are looking at in No. 3.

Q Column 10.

A I will just have to check on that. It is a very intricate method of accounting. What was the position on that?

MR. WHITTAKER: The 5266 was the only flare actually burned at the Compressor Station. The other flare was taken into account in sharing the market. There is no connection with the share of the market and the accounting of the purchase of residue gas. The things are quite distinct. What comes up on this sheet has no connection with what comes up on this sheet at all.

A Because that volume never appeared as having been delivered





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to the plant and therefore it does not enter into that second sheet at all, Mr. McDonald. As I pointed out, that will never re-occur but it is actually handled physically correctly as I think we can show to you on the books.

Q MR. McDONALD: It looks then, following Mr. Whittaker's explanation to you, Mr. Stevens-Guille, that flared gas is a matter for sharing position calculations.

A Well, Mr. McDonald, the procedure followed is if we flare gas at the plant, that is on the downstream side of the Royalite gasoline plant that gas has been through the meters from the wells into Madison's gas gathering system. It has therefore got to be accounted for in this set-up here for actually physically accounting for the residue gas that has been handled. If it is flared before our meters, then it does not enter into our accounting at all because the figures are no part of our meter volumes.

Q Now could you explain this to me, Mr. Stevens-Guille, taking statement 2 again. Referring to the calculations at the bottom of the page. Again excess to flare, 7990.

A One moment, I have not got where you are reading from.

Q It is at the bottom, "excess to flare".

A The same item we were discussing before?

Q Yes, the same item.

A 7990. The total of the two, yes.

Q Yes, by deducting the flare from the gas that was available at the outlet of the scrubbing plant the effect is that you actually reduce the total amount of gas available for sharing the market.

A At the outlet of the scrubbing plant, you said.

Q Yes.





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A You mean at the outlet of the Royalite gasoline plant.

Q I am sorry, the Royalite gasoline plant.

A That is correct.

Q Yes, according to these calculations, does it not follow then that if that flare is deducted from the sharing position of the crude oil wells that the proportionate sharing position of the gas cap, which is fixed, increases?

A That is correct.

Q Now what difference is there in principle to deducting flared gas as one of the losses in handling this total gas available for the sharing market from both gas cap and crude wells in proportion, as to deducting from the gas cap its proportion of shrinkage in the absorption plant and shrinkage in the scrubbing plant.

A Well the difference, Mr. McDonald, is this, that the gas cap never enters into the position when the gas is being flared because the gas cap is shut in at that time. It is therefore no party to the gas being flared at all. Perhaps I might go on. . . . .

THE CHAIRMAN:                      Supposing it was all produced and repressured. You do not do that because it would be stupid to do it. But supposing the gas cap was in fact produced and a surplus not required for market repressured, would not that be standing its share of any flaring that might be done?

A But if it was all repressured, sir, there would not be this flaring due to gas being in excess of the market. If I understand you rightly, you say there would be sufficient horsepower installed to repressure all the gas that was in excess of the market requirement, in which case





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there would not be this item of flared gas that we are discussing here at all.

Q I am afraid I cannot see that.

A Supposing, sir, that you were to order us to put in sufficient horsepower to return all the gas to the formation that was at any time in excess of the market requirements. Then we would not flare the gas at the main plant.

Q I see.

Q MR. BLANCHARD: This flaring is not done by reason of lack of compression?

A Yes sir. If there were sufficient horsepower put in to handle this volume of gas which is in excess of the market requirements, then this volume would not be flared.

Q Oh.

Q DR. BOOMER: And that flared gas, 5266, is crude gas that comes to you?

A Yes, that is correct.

Q There is not a foot of gas cap gas?

A No. As I have already stated any time that we have got to flare gas due to having a volume of crude oil gas available in excess of the market requirements, the gas cap wells are always shut in first before any gas is flared.

Q And that quantity of gas, 5266 m.c.f., you might get that in a few hours.

A Yes, we flared a volume about equal to that during the course of last Sunday, when the market demand was very low, being Sunday, and the Bow Island compressors were shut down for a time.

Q MR. McDONALD: Now the voluntary shutting in by Royelite of the gas cap has the effect of providing this





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excess equipment for repressuring what we call conserved gas.

A That is correct. If the gas cap was to be produced to its whole allowable, additional compressors would have to be installed over and above those which have been installed in order to prevent flaring an additional volume of gas that would be available to the market. Therefore it is an overall economy to the whole system.

Q Now in the same statement, the total amount of gas available for sharing in the B.A. area is 463378?

A Yes.

Q Can you tell me how that figure was arrived at?

A That is obtained from statements submitted to us by the British American and equals the residue gas available at the outlet of their gasoline plant, less any residue gas used for fuel, drilling wells, or any similar uses and also less any residue gas that they may have flared due to the volumes being in excess of the capacities of their compressor equipment.

Q Now what reports are made to Madison by the B.A. in the way of daily or weekly or monthly reports? What I have in mind, Mr. Stevens-Guille, is this, do they report the amount of gas that they had at the outlet of their scrubbing plant, to you?

MR. CHAMBERS: Their scrubbing plant?

MR. McDONALD: At the outlet of their absorption plant.

A Yes, we get that.

Q And then they report the gas flared?

A That is so.





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Q And the gas put into the transmission line North?

A That is correct.

Q And from those figures you get the 463378 here?

A By the method I described a few minutes ago.

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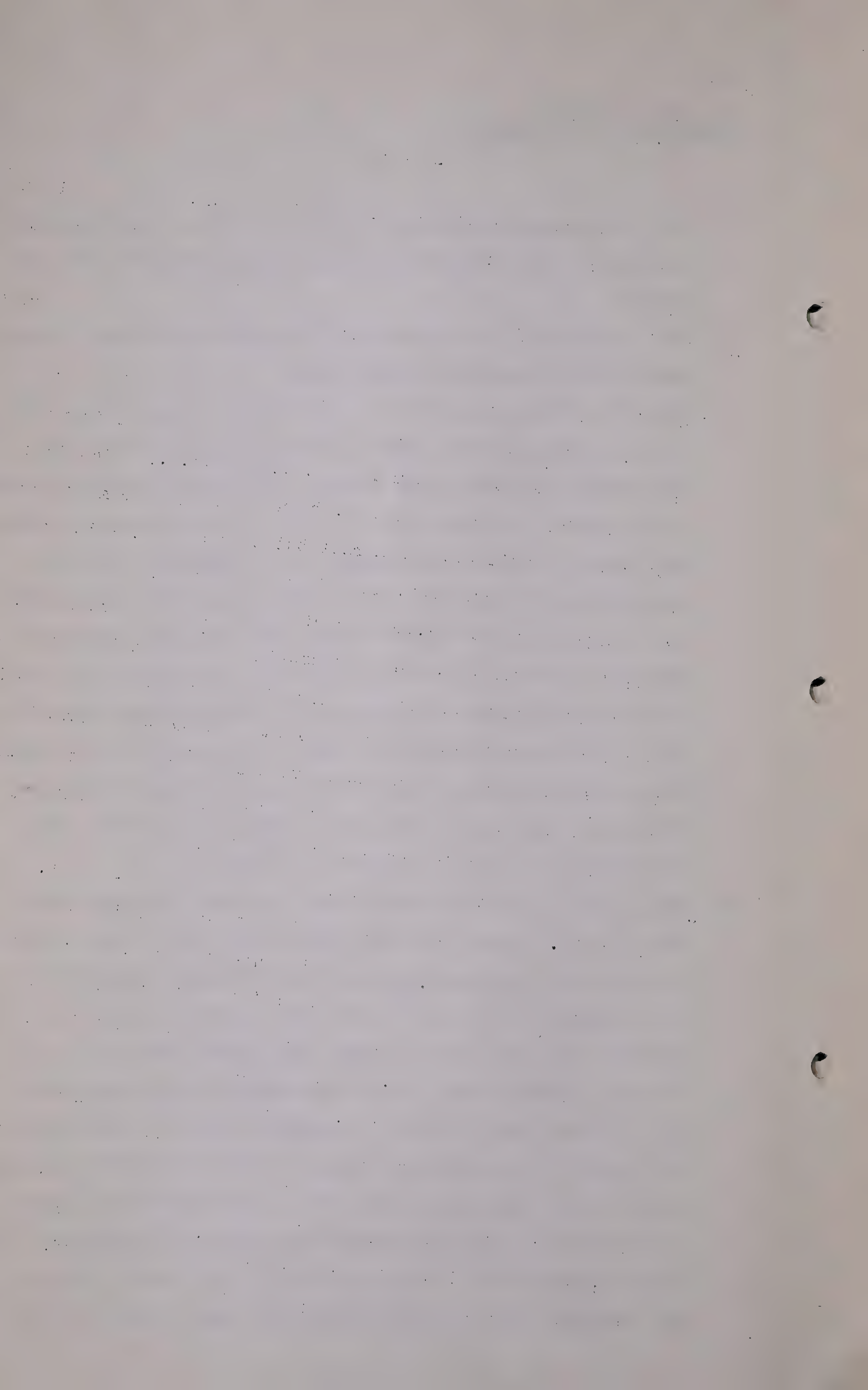
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Q Now that means that any gas flared at the B.A. Plant has been left out of the compilation of the raw gas available for the market?

A That is correct, in the same way as we have just been discussing for the Madison main plant flare.

Q Now it has been suggested to me that there is an alternative way of dealing with the flared gas and that is that in the case of the Madison system in May, 7,990 m.c.f., which is shown on statement 2 as being flared, be not deducted from the crude not raw gas available for market but be deducted, - but be used in that calculation, used in the calculation of the sharing position and the 7,990 deducted from the gas available, then found available, for repressuring; that would have the effect of leaving the sharing position of the crude gas wells at the same proportion in the market as they would have before the gas was flared and would leave the gas cap with the same theoretical position in the market that it had without any increase due to this unfortunate flaring?

A Well I can see that that view could be taken all right, Mr. McDonald. Of course it is not the one we took in our submission and our reason for suggesting the cut-off point, which after all is probably arbitrary as to the point that if any gas is flared it does not share in the market, was because we think it is the most practical one. If it was suggested that you should take into account that gas, an argument might be developed that the man with a well we will say with an operating pressure of five pounds too low to enter our system somewhere, might say that "it is only a question of the amount of horsepower that has to be installed and my gas will not be flared", and so the argument could be developed to the point where the ultimate





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would be that sufficient horsepower should be installed to collect all the gas in the field, so in our submission we make the suggestion, and of course it is only a suggestion to the Board, that for the sharing position the cut-off should be at the point that if any gas is flared at all it is deducted from that available to the market.

Q. Now going further, could a third position be taken with regard to the flared gas and that is that the flared gas total be accumulated for all, for both or all areas in the field, the B.A. Plant, the Royalite plant and the Madison Plant and the amount of gas flared there grouped and deducted from the total raw gas available at all plants and the remainder then used as the net raw gas available for the sharing position; that would have the effect of spreading the loss caused by flaring gas over the entire field including the gas cap and including all systems.

THE CHAIRMAN: You mean irrespective of where the flaring took place?

Q. MR. McDONALD: Irrespective of where the flaring took place. Have you given any consideration to that problem?

A. No, frankly I have not, Mr. McDonald. I think it has the same objection to the one we previously discussed, that the man who is just outside the operating ranges now being collected might well raise the same objection. For example a man in the area served by our Compressor Station No.3 might feel he was not in the same position as, - that statement operates at fifty pounds or sixty pounds suction, not in the same position as a man served by the B.A. low pressure suction which operates at a pressure of around ten pounds, he might say he was being discriminated against, so there are lots of practical difficulties





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in the fact that the field is in different stages of development and the whole area is not served by systems using the same suction pressures and also of course it would involve the problem that schedulling of production of wells would have to be uniform so that the plant where the load factor was a uniform one, was not penalized by a plant where the load factor was a variable one and gas being flared for that reason.

Q Well it would have the effect of spreading the inefficiency of one plant over the field, would it not, if you had the over-all calculation?

A Yes. I am not quite sure what definition you could give to "efficiency" there because I think it would bring in the point that I made about the ten pounds as against the sixty pounds suction systems.

Q There is just one more thing I would like to refer to on these statements, Mr. Stevens-Guille, and that is in Statement 3, column 15, that is the gas stored in the Bow Island field for the month of May, 114,565?

A Yes.

Q At the bottom of the total?

A Yes. That of course is just Madison's gas gathering total. It is not the total which was actually stored. If you will go through down that column, there was some gas purchased from the Gas and Oil Refinery which was also stored.

Q Yes, making a total of 130,427?

A That is correct.

Q Stored?

A That is correct.

Q Now as I understand the reason for storing in the Bow Island field is partly to make use of the compressor capacity which is





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now available there?

A That is correct.

Q And partly to make up the deficiency as it were in the compressor capacity for repressuring in the Turner Valley field.

A It also has that effect.

Q Yes. Now if the Bow Island compressors were not available, would that gas have been flared during the month of May, or would there have been capacity in the Madison installation as operating?

A I cannot tell you, you mean of the actual capacity which we have got now.

Q Yes, during the month of May?

A I cannot tell you how much of that gas if any would have been flared. We would have to go back and deal with the load factor day by day to find that out but it is quite possible some of it would have been but, Mr. McDonald, I would like to add to that of course, when we were estimating the amount of gas that we would have to handle in excess of market requirements at the Madison Main Plants we took into account the fact that this capacity at Bow Island would be used; had that not been available our estimates would have reflected that and it is possible that the Board would have directed that a larger installation should be made at the Madison Compressor Station.

Q Yes. Now what I am trying to, can you tell me Mr. Stevens-Guille, whether that 130,427 stored at Bow Island, was deducted from the gas available to the market?

A No, no, it is not. You mean in finding the sharing position?

Q Yes?

A No, no, it is not deducted from that. It is part of the gas available to market just as much as the gas stored in Turner Valley.

Q Yes. I was just trying to find on the statement 3, where it was





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paid for, the financial; it would appear in column 22 the gas sold to the market does not include the 130,427?

A Your question is what, I did not quite get it I think.

Q In column 18 rather?

MR. HARVIE: Which column?

Q MR. McDONALD: Column 18. What I want to bring out, Mr. Stevens-Guille, is that that transaction between the Madison Company and the producers in the Madison area is an internal transaction?

A That gas is purchased by Royalite.

Q Purchased by Royalite?

A From the producer and not by Madison.

Q Madison handles the money?

A Well Madison handles the money through this accounting system just as it does the cubic feet but the actual purchaser of that gas is the Royalite on that order of the Board, Nos. 15 and 16. It is all set out there, the exact arrangement under which that gas is purchased and sold.

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Q And that is an internal transaction between the producers in the Madison area and the Royalite area alone. This 130,427, Column 15 is not included in the gas sold to the market according to Column 22 in which all of the producers in the field share ?

A That is correct.

(A short adjournment was now taken)

Q Mr. Stevens-Guille, it has been suggested to me that in view of the fact that gas going to Bow Island is being repressured outside of the Turner Valley field, it is an item that is comparable to gas sold at individual plants for drilling purposes and under your submission such gas which is sold for local use and drilling purposes is not taken into account in the raw gas available for the market. Now the suggestion is that Bow Island gas be treated in the same way and be deducted from the raw gas available for the market and the Madison system. Now what have you to say to that proposal ?

A There does not seem to me any difference whether you store the gas in Turner Valley or in Bow Island in view of the fact that the ultimate destination of the gas in both cases will be to the market. On the other hand any gas you use for drilling wells is consumed and never will be available to that market.

MR. HARVIE: Bow Island gas will never be available to the Calgary market from the Turner Valley field either ?

THE CHAIRMAN: I do not know whether that is a question or a statement.

THE WITNESS: What was it Mr. Harvie ?

MR. HARVIE: I will ask it as a question.

MR. McDONALD: I think that is all I have to ask Mr. Stevens-Guille. I think some more statements will be made





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through him and then I would like to continue.

THE CHAIRMAN: Mr. Harvie.

Q MR. HARVIE: Mr. Stevens-Guille while we are on Exhibit 87, sheet 2, at the foot of the page the summary under the heading, "Market" it showed a total of 1,162,421 m.c.f. Is any of the gas that is sold to Royalite for storage in Bow Island included in any of those figures or in that total ?

A No, the volume stored at Bow Island is not included in the market and that summary you have just given the total from, shows just the actual current sales to the market.

Q Now we were talking about the Bow Island gas being deducted from the market sharing position. If gas is sold, say from the south end of the field for fuel use, that has been deducted from the market sharing position in the south half ?

A So I understand, yes.

Q And the income from that gas is not pooled for distribution throughout ?

A No the income is handled by the British American direct. It does not come through the Madison accounts.

Q Now your Bow Island gas is sold to Royalite. That is correct is it not ?

A Yes. Royalite purchases that from the producers.

Q Royalite then sells it to what might be called a partnership with the Gas Company for storage in Bow Island ?

A Yes, that is as set out in the two orders we referred to, Nos. 15 and 16.

Q And they either buy it from the Turner Valley field at the .6 cent rate as allowed by this Board. Is that right ?

A Yes.

Q And that money goes where. I will put my question in reverse.





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That money is not in the common pool through Madison for distribution to all producers in the field. It goes to the ....

A That is correct. Just the same way as the moneys from the gas stored in Turner Valley is not in that pool.

Q And just the same as gas sold for drilling fuel in the south end of the field does not go into the pool ?

A That is correct.

MR. CHAMBERS: Pardon me, under that Order it provides that Madison distributes that money to the producers.

MR. HARVIE: In the north end of the field.

MR. CHAMBERS: Yes.

Q MR. HARVIE: Just the same as the practice is from the sale of British American in the south end, that is distributed to producers in that end of the field and not over the whole field. That is correct is it not ?

A Yes, and the same as I mentioned the moneys from the gas stored in Turner Valley by Madison.

Q So that money that comes from that gas goes to the Royalite and through it or to Madison and distributed to the north end producers proportionately that are tied into that system?

A That is right. Paid by Royalite and distributed through Madison to the producers connected to the Madison system.

Q Then the gas is taken down and stored in Bow Island ?

A That is correct.

Q Then it is sold at a later date we hope ?

A That is the hope, yes.

Q And the price is set under that agreement ?

A That is right.

MR. CHAMBERS: You mean under the Royalite and Gas Company agreement ?



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MR. HARVIE: Yes.

Q MR. HARVIE: And that sale price of that gas is then distributed to whom?

A Well I have not a copy of the agreement here. I have read it but it is so long ago.

Q I suggest it is distributed to the Gas Company and Royalite and never comes into the Turner Valley pool ?

A It has been purchased by Royalite in the first place, once that transaction is completed it naturally does not figure <sup>the</sup> again in/Turner Valley picture.

Q Under this set of circumstances I suggest it is just a similar transaction entirely for a private sale in the north end of the field, as a private sale to the drilling contractor in the south end of the field and should be treated similarly.

A Well it would seem to me more to be on the same par as the gas stored in Turner Valley by the Madison system.

Q The gas ?

A Stored in Turner Valley by the Madison system which is purchased by Royalite.

Q That is your view. You disagree with my suggestion. My suggestion is that it is on all fours as gas sold for drilling fuel in the south end of the field ?

A No I think there is a difference between gas purchased and stored with the ultimate object of that gas entering the market and gas going to current consumption either drilling wells or leases or any other place like that.

Q I agree with that statement as you have put it, but I say this,

the Bow Island gas when sold, does not enter the Turner Valley market but the income from that gas does not go for distribution into the Turner Valley market, which has





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- already been paid for and everything else out of the market.
- A That is true, at the time the gas is sold to the market the income from it will not enter the pooling system in Turner Valley.
- Q Mr. Stevens-Guille, now on the general principle of the compilation of these statements, would it be a fair summary that you agree with the basic premise that in order to equitably share in the market relation your sharing position should be uniform throughout the field. Both as to gas sales in various areas and as to oil wells in relation to gas wells ?
- A In so far as it is possible from a practical point of view, yes.
- Q And that is the basic principle you have developed your whole submittal on ?
- A That is substantially so.
- Q You have found individual situations arise that have to be treated specially ?
- A Well the conditions in different parts of the field are not the same.
- Q Now in connection with the so called Royalite gas cap allowable. That is one of the basic factors in compiling the market sharing position. As I understand your suggested formula or to interrupt, I wonder if Mr. Chambers this would be an opportune moment to put in the amended formula.
- MR. CHAMBERS: You mean that schedule ?
- MR. HARVIE: Yes. You are presenting that as an Exhibit?
- MR. CHAMBERS: Yes. This was taken from the total in Schedule "A", from the schedule attached <sup>to</sup> the suggested forms of agreement between Madison and British American and between





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Madison and G. & O.P., which are included in Madison's sub-  
mission M 16 and really come up again under the question,  
revision of contract. It is also a revised edition of sched-  
ule "A" which was attached to Interim Order No. 17 advanced by  
the Board.

DOCUMENT NOW PRODUCED AS SCHEDULE "A"  
NOW MARKED EXHIBIT 91.

Q MR. HARVIE: You are familiar with the previous form of  
Schedule "A" and this is now Exhibit 91 ?

A Yes, I have read them both.

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Q The formula adopted in Schedule A in connection with giving the Royalite gas cap its market sharing position, you start with one factor, which is the gross Brown allowables allowed by the Conservation Board?

A That is correct.

Q Then some of the Royalite gas cap wells have their allowables based on an assigned acreage as high as 160 acres?

A I believe that is so but I have not studied that lately, so that I would not like to say definitely.

Q And others as low as 20 acres, or maybe lower?

A I believe lower, but then again I have not got those things before me.

Q Does that practice place the wells with a large assigned acreage in an advantageous position over one with a small acreage in the market sharing position?

A Not if you agree to the primary assumption that the Brown formula is suitable, is a suitable formula, and it has been applied correctly by the Conservation Board. We are not tying our sharing position necessarily to the Brown formula. We use whatever allowable has been currently approved by the Conservation Board.

Q I understand that and I agree with that suggestion, that your submission is based on any allowables from time to time granted by the Conservation Board, that is correct?

A That is correct, yes.

Q Now, so long as the Conservation Board, and I am not making this by way of any criticism of the Conservation Board's practice in any way, it has a great deal of merit, but I am asking the question, does that practice of varied acreage assigned to gas wells give or have the effect in view of your suggested formula, of giving an advantageous position





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<u>Page</u>	<u>Line</u>	<u>Correction</u>
2153	24	Delete "enumerator" and substitute "numerator".
2163	9	Delete "thet" and substitute "to".
2175	27	"it might as well be cancelled" should read "it might as well be installed"
2176	16	"ended product" should read "end product"
2187	12	Delete "saw" and substitute "said".
2188	11	Delete the period and substitute a comma.
2188	12	Delete the comma and substitute a period; delete "if" and substitute "If".

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2222	2	"would be relative incidentally" should read "would be relatively incidental".
2236	11	"the \$631,000.00" should read "the \$63,000.00"
2242	20	"ask the" should read "call a".

: : : : : :





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to a gas well with a large assigned acreage as against a gas well with a small assigned acreage?

A I think it follows naturally since the acreage is one of the factors in the Brown formula, that it must be so.

Q Are you familiar with the practice of the Conservation Board where there is an allowable of more than 40 acres in any case, as the assigned acreage to an oil well?

A I did not catch the question.

Q Do you know whether the practice of the Conservation Board, or do you know the practice of the Conservation Board which in any case allows an assigned acreage to an oil well in excess of 40 acres?

A I do not know of any case but that would not necessarily preclude it from being so.

Q Pardon me?

A I do not know of any case but that would not necessarily preclude it from being so.

Q You do not know?

A I do not follow the allowables as closely to be able to state that.

Q But in any event you do not know of any case?

A That is correct.

Q Assume with me for a moment that there is no case, then is there a similar advantage derived, we will say from a gas cap well with an allowable of 160 acres as against a crude well of 40 acres?

A It depends what you mean by advantage. I think the point that must be brought out here that it is common that a gas well will drain a larger area than a crude oil well, and that presumably is the reason why the acreage assigned to gas wells in general tends to be higher than that assigned



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to crude oil wells.

MR. CHAMBERS: Pardon me. I do not want to be unduly technical, but I do suggest that this hearing is long enough as it is, and involved, and that going into the matter of the merits or demerits of the allowables fixed by the Conservation Board may be going a little too far afield.

MR. HARVIE: I do not propose to go into the merits of the Conservation Board at all.

THE CHAIRMAN: Excepting this, Mr. Chambers, I think that Mr. Harvie is entitled to develop the point that your formula starts on the wrong basis, and while he does not quarrel with the allowables fixed by the Conservation Board, I would judge that he is leading to the point that the Board should make some variation, that this Board should make some variation in allowables relative to acreage for the purpose of fixing the market sharing position. I might be wrong.

MR. HARVIE: You are very nearly right. I agree with everything you say, only possibly that my point is before this Board when we make a submittal with regard to it later.

THE CHAIRMAN: I judged that you were laying a foundation for something else.

MR. HARVIE: That is very true.

Q Take a case, Mr. Stevens-Guille, of gas wells with an assigned acreage of 40 acres, and we will say that the assigned acreage for the same gas well is increased to 160 acres, are you familiar enough with the practice to know what an increase in allowables that would have on that gas well?

A Well, my understanding is that as the acreage is taken into account directly the allowable would be four times. I think there was a limitation that the allowable not be more





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than two-thirds of the open flow volume found by tests of that well, so that is an over-riding, correcting and reducing factor.

Q And the Conservation Board takes a lot of similar factors into consideration in setting allowables, I understand?

A I understand it is set on a definite formula basis, and those are the two principal points.

Q Could you tell me whether this over-riding two-thirds as you put it, is part of the Brown Plan or a plan that is drawn by the Conservation Board from the Brown Plan?

A I cannot tell you that. I have never actually seen the form in which Dr. Brown left his formula with the Board, and I <sup>never</sup> have/had occasion to check it.

Q So that subject to any authorizing control such as that, the effect of increasing the acreage four times would increase the allowable four times?

A That would be my understanding.

Q And the effect of that would be to give that well four times the market sharing position?

A Under the factors you have mentioned, yes.

Q Do you know of any wells in Turner Valley that have an allowable of in excess of 160 acres?

A No, I do not.

Q Do you know an oil well or do you know of oil wells that have an allowable of less than 40 acres?

A Well I do not know, because as I say, I have not studied that, Mr. Harvie. I cannot say that there are not some.

Q If an oil well has an assigned acreage of 40 acres, and that assigned acreage for that well was increased to 160 acres, would the same proportion of increase as you mentioned in the gas wells be applicable?





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A Theoretically in the first place, but the practical effect probably would not be that.

Q And in taking the two cases, might there not be the same similarity so far as the market sharing position is concerned between allowing the gas allowable in an assigned acreage of 160 acres as compared with the crude well of 40?

A But there you must take into account what I said just now theoretically that a crude oil well might get in the first place that increased allowance but it would not get it in all probability in practice, because if it produced at the higher rate at the new allowable its gas-oil ratio would go up, which is another factor and would cut that allowable there. That is not the case with the gas cap wells, the probability is that it could meet, there are a few that cannot, its theoretical allowable, and therefore, in practice can also produce it, and that also is a very important point to consider.

Q I think you told Mr. McDonald that all the gas cap wells were not actually connected to the Madison system?

A All Royalty gas cap wells.

Q Yes?

A That is correct.

Q Are there many that are not?

A Offhand I would say five.

Q Five?

A Yes.

Q I understand that those wells that are by practice grouped with adjoining wells, have a group allowable.

A That is my understanding, but as I pointed out several times, I do not have direct dealing with the allowables, so that I would not be certain if my statements are correct



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without checking.

Q Now do you know of any crude oil wells that are not connected with either the Madison or the B.A. system?

A Yes, there are several that are not connected to any system.

Q Do you know of any occasion where a crude oil well, which is not connected, that is grouped for market sharing position to allowables with a well that is connected?

A No, I do not.

Q Will you just tell me, Mr. Stevens-Guille, whether you have any information available that would allow you to say whether each of the gas cap wells for which you are granted allowables, are used or incorporated in figures for the sharing position, have actually produced month by month their allowable?

A That has been checked from time to time, and I think it is in the course of being checked again. There have been instances where the wells are known not to be able to produce their allowable against the then existing pressure in the gas gathering system, and their allowables have been reduced accordingly by the Conservation Board. And as I say, that is currently reviewed and on occasions when the operating pressure, I have a case in mind, was reduced the well was then able to produce a greater volume of gas and the allowable was adjusted accordingly, still, of course, under the allowable as computed by the Brown formula.

Q So that you do not make any adjustment as far as your calculations are concerned in the case of a gas cap well that cannot produce its allowable, you leave that for the Conservation Board to reduce the allowable?

A That is correct. We use the allowable as given by the Conservation Board.





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Q And if your line pressure is 325 and the well is only capable of producing against 200 pounds, for the time being, until you can reduce your line pressure to 200 pounds, would that well have any allowable from the Conservation Board?

A Well, of course, we have not got any wells which cannot produce some volume of gas against the higher pressure, but as I stated on those occasions whether you have or not, I cannot say the allowables have been reduced to the volume that the well can produce against the actual line pressure.

Q And any deficit that cannot be produced, do you know if that through the grouping arrangement, is added to a well in the neighbourhood allowing it to produce the aggregate?

A No, I do not think so, Mr. Harvie. In one of the cases I have in mind, it definitely was not, and as far as I know, I do not think it was in any other case, but I say again I cannot say for certain.

Q Well I am just asking?

A Those are matters beyond my knowledge. I do not have anything to do with the computation of the allowables.

Q If it becomes necessary and if you cannot answer, you just say so.

A You do not understand my position. That is not my primary concern here. Any remarks I make must be subject to that, and it is knowledge that I do not have.

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Q MR. HARVIE: You do from time to time test these wells that are not able to produce to see how they are acting.

A We, Madison do not.

Q They are being tested by Royalite.

A So I understand.

Q Are you familiar enough with the practice to know whether the results of these tests are reported to the Conservation Board so the allowables can be adjusted if necessary?

A That is definitely my understanding.

Q So your general impression is that in effect through that procedure a well that cannot meet the line pressure, that is current at the time gets no allowable.

A No, not that it gets no allowable. Its allowable is reduced from the theoretical volume computed by the Brown formula to what it actually can produce against the pressure that is current in the line at that time.

Q I understand that, but assume with me that there might be a well there that cannot produce any at the line pressure, it will be cut off entirely?

A Yes, the same practice would be followed through that is fixed and its effect would be to cut it off altogether.

Q Now have you got a copy of Exhibit 91 there?

A Yes.

Q One other question on the other point, Mr. Stevens-Guille. I think the point was at least partially covered by Mr. McDonald but I would like to make it clear. As to your views as to whether it would be advisable from a mechanical standpoint to consider the flared gas of each of the three absorption plants as deducted from the repressured



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gas account in place of being deducted from the gas available to market.

A From the accounting point of view you mean to devise an accounting system to do that?

Q Yes.

A Well I do not at the moment see any difficulty in devising an accounting system, but I would not be prepared to make a statement on that without a particular study of it.

Q Then from the mechanical standpoint, how about that? You are the Field Engineer. Do you know of any reason why that cannot be done?

A No, I have already stated it can be done but I have also stated in reply to Mr. McDonald my views as to why it is not the best way to do it.

Q Now I gather that Exhibit 91, which is Schedule A attached to the agreement referred to in your submission M-16, which has not yet been marked as an exhibit, I believe.

A That is correct, it has not been marked.

Q It is possibly in effect a refinement embodying some views of your own and giving effect to suggestions of both producers and my clients in order to endeavor to work out a formula that would be agreeable all round?

A That is my understanding.

Q The first time you saw Exhibit A was in connection with and attached as part of your submission M-16?

A You say the first time you saw it.

Q Yes, that is the first time . . . . .

A That is the first time it appeared here.

Q Then later a similar Schedule A to that was incorporated in the Board's Order 17?





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A Yes.

Q Now we have this refined Exhibit 91, Schedule A.

A Yes, marked revised . . . . .

MR. CHAMBERS: Revised.

MRR HARVIE: Yes and refined too, I think.

A There might be a tax if it was a refined product and I think we had better stay with revised.

Q Yes. Now if you will be good enough to refer to that in paragraph 4.

A Yes, on page 4.

Q I notice that if you go to sub-paragraph 3 that there has been a phrase "rateable portion" which is now used instead of "of the portion" and following that there is in brackets a clause "the foregoing items (i) to (iii) being adjusted in proportion which the total gas gathered bears to the total of the said Allowables." I wonder if you would be good enough to just explain that change to rateable portion from the portion and the necessity for adding the clause in brackets.

A Well the reason for inserting rateable may not be a very good one. It is possibly redundant there I think and I think the sense could perfectly well stand with it left out.

Q It is a matter of wording and there is no new thought?

A No, there is no new thought put into it. We had a slip in the typing at one time where we had proportion instead of portion and in correcting that we inserted the word rateable portion but I think it is quite clear what is meant without that. With regard to the second part of your question, the note in parenthesis after Item 3 is





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required because it applies only to Items (i) to (iii) and not to Items (iv) and (v).

Q MR. CHAMBERS: Here is just a thought, if I may interject, Mr. Harvie. The word rateable it seems to me has more reference to gas that comes in from the South end whereas the qualifying words "the foregoing items (i) to (iii) being adjusted in the proportion which the total gas gathered bears to the total of the said Allowables," that refers to the total coming in from the Madison system.

MR. HARVIE: I think we are all trying to say the same thing but it is a very difficult thing to get down and it does require refinement and well as revision possibly. I was just simply raising the point as to whether there was any particular new thought you had in mind that necessitated adding the word rateable.

A No, the only thing was an attempt, as Mr. Chambers says, to pin it down a little closer so that when we get to utilizing it there is going to be no difference of opinion. That is why it appears.

Q This clause in brackets you say is applicable to the first three deductions and not to the other two?

A That is correct.

Q Would you be good enough to explain why that is the case?

A Well I think you have got to go through the whole clause, Mr. Harvie, to explain that, so that we can all follow what is being done. Going back to page 4 and starting at paragraph 4, it reads:

"The total volume of the Allowables thus obtained (being the total of the volumes referred to in (3)) shall, at the end of the month, be converted to residue



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"or dry gas equivalent by deducting therefrom:

- (i) the portion thereof used by the Madison system during the month, for heater fuel and compressor engine fuel,
- (ii) shrinkage in the volume occasioned by the extraction therefrom of the natural gasoline content,
- (iii) the rateable portion thereof used during the month in operation of the Scrubbing Plant and auxiliary plants and of Royalite's Plant,"

Then the note in parenthesis:

"(the foregoing items (i) to (iii) being adjusted in the proportion which the total gas gathered bears to the total of the said Allowables.)"

Now Item (iv) "any residue gas re-delivered therefrom to the producer, during the month, for lease or drilling fuel, and

- (v) the rateable portion of any residue gas flared or popped to the air from the Madison system at its No. 1 Compressor Station, in Legal Subdivision 14 of section 6-20-2 W.5."

Now to go back to the note in parenthesis. The residue gas redelivered therefrom to the producer, in (iv) is the actual measured volume. It does bear any proportion to the Allowables. It is a metered volume which is to be deducted according to whatever volume has been redelivered and the same applies to the gas flared or popped to the air under our submission. It again is an actual metered volume.

Q You think it is just an advisable revision to give effect to the over-all principle we are trying to follow?





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A Actually, I do not think it is a revision of that Item. I think it has changed its place. I think it appeared in the previous one, did it not, Mr. Chambers?

MR. CHAMBERS: You mean in the original?

A Yes.

Q It was in Schedule A attached to Order 17.

MR. HARVIE: I will not make it a point. I think your explanation possibly covers it.

THE CHAIRMAN: It should be called a clarification instead of a revision should it not?

A I do not know, sir.

Q Or an attempted clarification.

A It is a revision attempting to clarify and to meet all parties' views on it, I think very definitely.

MR. CHAMBERS: It was not in exactly those words. It said "any residue gas flared or popped to the air from the Madison system," and the revision makes it clear it is only gas that is popped at the No. 1 and not at the No. 3 plant.

Q MR. HARVIE: Now Exhibit 87 is the actual accounting so far as the Madison system is concerned, in the form suggested in Schedule A for the month of May.

A I think that is correct but Schedule A in the form we are now dealing with it was not available at that time.

Q There have been some changes. I am just trying to get the sequence of things.

A Well the accounting for the month of May was done the first week in June, so it is not necessarily controlled by any revisions that have been made in Schedule A subsequent to that.





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Q There is one point in connection with deductions applicable to the gas cap Allowables. In Table 1 of your submission 5-M, Exhibit 86, for the month of January, at the top of the page, Columns 1 and 2, I gather that Column 1, the wet gas, is 1,433,000 m.c.f.

And the equivalent residue gas is 1,203,600 m.c.f.?

A That is right.

Q Which I am informed is just under or is just about 16 per cent.

A I think the intention was to use 15 per cent.

Q If you go down to the R.O.C. gas cap, third or fourth item, the comparative figure in Column 1 is 672,700 and 604,500 in Column 2. Which is approximately 10 per cent.

A That is correct.

Q Which leaves a difference so far as this original submission of yours of about 5 per cent additional deduction from crude gas to that you have taken for gas cap gas.

A That is correct.

Q Have you carried those similar or proportionate differences through your actual accounting or only in this submission?

A Oh no, only in this submission. In actual accounting the actual shrinkages used for fuel and so forth are taken into account. Those were just round figures used for the purpose of these illustrative figures.

Q So your Exhibit 87 would in effect show, if your shrinkage for these items was 15 per cent from the crude gas, you would apply the same figures to the gas cap figures.

A Computing the hypothetical shrinkages the gas cap would have suffered had it gone through.

Q So the basis of your submission is that you are treating them as identical as you possibly can?



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A That is definitely so, using the actual figures wherever the actual figures are available as they are when we are doing the actual accounting.

Q Have you found if the changes in the Schedule A as attached to M-16 under which I believe the computations were made would be different in the final results for giving effect to the Exhibit, this last Exhibit Schedule A?

A Exhibit 91?

Q Exhibit 91, yes.

A No, we have not made any such computation, Mr. Harvie. Exhibit 91 has only just been available in the last two days.

Q Well does it occur to you that the final accounting figures would be the same under both Schedules A?

A Well I have not really studied it, Mr. Harvie, to be in a position to make a statement on that. It is a very complicated proposition and I have not been through it.

Q I agree with you, it is complicated.

A I believe actually, Mr. Harvie, the changes in Schedule A as far as your own position goes were suggested by yourselves, so possibly you are in a better position to tell me than I am to tell you whether they make any changes in the figures.

(Go to page 2353)





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Q One distinction between the original schedule A, if you might call it that, and schedule A Exhibit 91, is that it purports to treat the gas caps in the various parts of the field or at least in the B.A. area and the Royalite area in a similar method or manner?

A To some extent but not completely, Mr. Harvie.

Q Just what difference is there?

A Well as I understand it, in the South end there is no intention and certainly no indication in schedule A of any conserved gas so there is a difference in the operations of the two gas caps.

Q So far as the operation is concerned but not in the formula, in the formula the treatment is the same?

A Well the point I am making is that the treatment of the two gas caps as set out in schedule A now is not exactly the same to the extent that there is no provision for conserved gas in the South end, where as there is in the North end.

MR. HARVIE: That is all, Mr. Stevens-Guille.

THE CHAIRMAN: Have you anything, Mr. Steer?

MR. STEER: No.

THE CHAIRMAN: Mr. Fenerty?

MR. FENERTY: There are a few questions that I would like to ask.

CROSS-EXAMINATION BY R. FENERTY

Q Mr. Stevens-Guille, at page 3 of M-5?

A Yes.

THE CHAIRMAN: Call it Exhibit 86, Mr. Fenerty.

MR. FENERTY: Yes, pardon me, Exhibit 86.

Q MR. FENERTY: Exhibit 86, "(C) Conserved Gas.





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"It is therefore submitted that Royalite should get full credit for that part of the gas cap Brown Allowables which is not produced in order to allow residue gas from crude oil wells to enter the market in excess of their sharing position, the alternative being to flare this residue gas from crude oil wells or instal additional horsepower to return it to the formation for storage".

And then I want to turn to page 10 under the heading "Column 15".

"This shows the amount of gas from wells connected to the British American plant that will be stored. Under the arrangement whereby British American stores all its own gas in excess of its current sharing position, there will be gas stored in the winter as well as the summer months, in contrast to the Madison and Gas and Oil Products systems where this excess is taken up by conserving gas, that is, under-producing the Royalite gas cap below its share in the market a volume equivalent to the excess of crude oil gas available above the share in the market".

And now looking at that clearly from the point of view of a dry gas operation, would it not be a scientific and proper method that the British American gas, residue gas, should be handled in the same way; in other words, that it should be produced and as produced used in the market rather than repressured?

A Well of course it is a subject which I have not studied, Mr. Fenerty, as you can understand; in making this statement I merely used what was there as the mechanical method of handling the situation and I can see that down there you have a different situation. You have a gas cap owned by many different parties



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and it is possible that from a practical standpoint view that a scheme could be evolved to handle it in that way.

Q I see?

A But I cannot tell you that, naturally.

Q Let us put it this way, if you were handling that whole field as an efficient engineer and had free rein to handle it in the best interest of the economic production of dry gas, I suggest that what you would do would be to use all of the volume of residue gas available from the B.A. area both winter and summer in the market as produced, conserving other gas to a corresponding extent, is that correct?

A If the field was a unit operation....

Q Yes?

A As the term is, you would naturally only produce what gas was required.

Q Yes?

A You are saying for a dry gas system.

Q We had finished that?

A What gas would be required for the market if it was a dry gas system under a unit operation.

Q Now I think you are doing what I described before as "going down an alley" and I want you to keep to the main road and I want you to tell me whether that is what you would do, just repeat the question?

A I said very definitely if it is a unit operation and a dry gas system, which I understood you to tell me to assume, then you would only produce the volume of gas which you can utilize in your market.

Q Yes. If this were a dry gas operation you just would not need compressors at all, would you?





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A Oh, indeed you would.

Q You would get it in at the pressure in the wells?

A Oh certainly.

Q And if there was any reduction in pressure as a result of an oil operation...

A If the crude oil wells were all shut in tomorrow and the City of Calgary was supplied by the gas cap wells and we will assume for the moment that it is dry gas, to suit your assumption, they would still need the compressors to put that gas into the market.

Q Now you and I are getting into another alley, but this time I am going to stick to the question until we finish it. Now what I started to ask you about was not if this were a dry gas operation from the beginning but with the existing conditions, with the crude oil wells where they are, with the plants where they are and everything just as it is, if you were trying to make the best of the existing situation, for the purposes of an economic handling of the dry gas for the market, I suggest to you that, as an efficient engineer, what you would do would be not to repressure any part of the B.A. gas but to use it for the market as it was available, making the necessary adjustments, corresponding adjustments in the Madison gas areas, just as you propose to do with the gas coming from other sources in the B.A., now is that correct?

A But, Mr. Fenerty, if you do not repressure any, there is going to be gas in excess of market requirements.

Q Of the B.A.?

A Well if you do not repressure any of the B.A. area and still repressure some of the Madison area the total gas available at certain times would be in excess of market requirements.

Q In the winter?





Mr. Stevens-Guille,  
Cr.Ex. by Mr. Fenerty

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A Not in the winters. I say at certain times.

Q All right. This reference is to repressuring the B.A. area both winter and summer?

A Oh, you never mentioned "winter" in your question. You mean to refer to purely winter operations.

Q No, what I mean is so far as possible it would be good business from a dry gas operation to use the B.A. gas for consumption for fuel?

A Yes.

Q Rather than to repressure it?

A As far as possible, definitely.

Q Yes, and that would eliminate repressuring from the B.A. area all together on an average, would it not?

A Yes, during certain months of the winter, probably that would be so.

Q Yes. Then may I take it that this market sharing position has not been worked out entirely from the point of view of the most efficient handling of the dry gas?

A Well I cannot answer that, Mr. Fenerty, because you referred to me as a "practical engineer" and I do not know what practical difficulties the B.A. may have met in trying to handle the situation in that way.

Q Perhaps we misunderstand each other. I am referring to the suggestions contained in Exhibit 86 prepared by you, the report M-5, as to the method of handling this gas and on page 3, paragraph "C" I find the result set out there of handling the Madison gas and the gas gathered from the wells tributary to the Madison system and the way it is suggested, you suggest certain benefits from that?

A Correct.

Q Yes. Now perhaps there may be reasons for them but there is that



Mr. Stevens-Guille  
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principle in the case of the gas coming from the B.A. area, is there not?

A That is correct.

Q Yes and I presume that it follows that the most efficient system would be to use that gas during the winter months, directly into the line but the way the market sharing position has been arranged, that is entirely foreign to the dry gas system?

A Yes, but you said just now, Mr. Fenerty.....

Q Now is that so, so far as you can see and then we will go on?

A If it were possible to have the same system in the South end, it would undoubtedly economize in the amount of equipment.

Q It would be advisable, would it not, in any winter at all, the average winter, if all parties were agreeable, to take every bit of that gas from the B.A. system and shove it into the market and have no repressuring of that?

A I have already said "yes", that is correct.

Q All right and you do not know why it is not going to be done under this set-up, is that it?

A Definitely. I said that at the time, I did not make up the system on how the B.A. was to operate. I made up that sharing position proposal on the system that they said, so I understood, that they said they were going to use. Now what their problem was behind that is something beyond my knowledge.

Q Will you go this far with me that from the point of view of the consumer, if the consumer is properly chargeable with any of the costs of this sharing, it is not an efficient set-up?

A I can only go with you, Mr. Fenerty, along that line to the extent that I do not know what practical problems had to be faced to do it.

Q I know?

A Therefore I cannot say.





Mr. Stevens-Guille  
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Q But do you know the answer to my question, will you repeat the question?

(Reporter reading) "Question: Will you go this far with me that from the point of view of the consumer, if the consumer is properly chargeable with any of the costs of this sharing, it is not an efficient set-up."

Q MR. FENERTY: Now what I want are answers to these questions?

A Yes, but I cannot answer you things, Mr. Fenerty, that are beyond my knowledge.

Q You can tell me whether it is so or not or you do not know and that will be the answer and we will go to something else. Now what was the question I asked?

(Reporter reading) "Q. Will you go this far with me that from the point of view of the consumer, if the consumer is properly chargeable with any of the costs of this sharing, it is not an efficient set-up."

MR. CHAMBERS: Well now I submit that his answer is responsive to that question. I will admit it is somewhat difficult to understand the question but.....

MR. FENERTY: I have had Counsel over a good many years interrupting when anything seems to be going against them but I submit this is not a proper time to interrupt.

THE WITNESS: Will you explain to me what you mean by the word "efficient", Mr. Fenerty.

THE CHAIRMAN: I think we have all done that, Mr. Fenerty, every Counsel does it. You have done it and I have done it and it is good tactics if you can get away with it.

MR. FENERTY: Well yes.

MR. CHAMBERS: You are implying that this Witness is trying





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to evade your question. Now I submit that is not a fair statement.

Q Well let us do it this way. He is unconsciously doing it.

A Let me ask you a question Mr. Fenerty.

Q In order to get away from any question of confusion just say yes or no.

A Will you explain to me what you mean by the use of the word "efficient" ?

Q Oh I thought you were an efficient engineer.

A Well I cannot understand your question.

THE CHAIRMAN: Mr. Cutler will you please read the question again to Mr. Stevens-Guille ?

(Reporter reads question) Will you go this far with me that from the point of view of the consumer, if the consumer is properly chargeable with any of the costs of this sharing, it is not an efficient set-up ?

Q MR. FENERTY: Well the question is, will you go that far with me and if you say no, that is the end of it.

THE CHAIRMAN: I think, Mr. Fenerty, to be fair you will have to define for the witness, efficient from an engineering point of view, efficient from the point of view that the company wish to attain by doing what they did, efficient from the point of view of the customer.

Q MR. FENERTY: I will withdraw that word "efficient" and I will use the words that the witness used throughout his evidence to this enquiry and in the report, economical set-up, that is your own words ?

A Yes, it would be the most economical set-up provided it is practicable to do it. In engineering you have to deal with what is practicable and not what is theoretical or the easiest way or the best way to do it.



H. Lem. Stevens-Guille,  
Cross-Ex. by Mr. Fenerty.

- 2361 -

Q Is there anything impracticable in using the residue gas from the B. A. system in the winter ?

A No there is nothing impracticable in that, that is not the point.

Q That is my point. All right, there is nothing impracticable in it. Therefore if there is nothing impracticable in it does it not follow that it is not the most economical system to repressure it ?

A I have said it is the most economical if practicable to carry it out.

Q And it is practicable to do it ?

A That is the point. I tell you I do not know because I have not had the handling of the situation. You have to handle the situation of the conserved gas.

Q Didn't you just tell me it was practicable to use that direct into the lines in winter ?

A It is practicable and possible from an engineering proposition to put the residue gas into the lines, yes, but whether it is practicable to handle the situation in the south end in the same way as in the north end, which is what your suggestion started from, is something that I do not know.

Q Do you mean from an engineering point of view or a political point of view ?

A Not from a political point of view but from an engineering point of view which has to take into account all the factors. There are ownerships for one thing.

Q Ownerships ?

A Yes, certainly, of the gas cap.





H. LeM. Stevens-Guille,  
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- 2362 -

Q That is not an engineering angle ?

A Certainly you have to take that into account when you are putting forward an engineering proposition. It would be futile for an engineer to put up a scheme pure theoretically and not attainable in practice.

Q That is what I want to get at. This proposal is not from the point of view the most economical handling of dry gas at all. Do you follow that is so ?

A I have said if it could be done that way.

Q I would not ask you if it could be done, I asked you whether or not this proposal was from the most economical point of view of handling dry gas. Now you and I are going to get answers from each other. Does that not follow there are many other considerations in the economical handling of dry gas. That is what I want ?

A There are many considerations in the economical handling of dry gas. That is what you want to know. The answer is yes, there are many.

Q Now we will get back to what I intended to say, whether I said it or not. I suggest to you that in advancing these proposals for sharing the market there were many factors considered in addition we will say to the most economical way of providing a dry gas set-up for the market. Is that so ?

A No.

Q I see. There were no other factors than the most economical way of providing dry gas considered ?

A That proposal is not concerned with that. That proposal is concerned with taking what is said to be, going to be the set-up. Whether it is the most economical one or whether it is not

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it is immaterial. It is taking that as a fact and it is devising a system to show the market utilizing those installations whatever they may be.

Q Then let me get back to what you told me a moment ago. I asked you if it was a fact if there were many considerations other than economical in considering a supply of dry gas and you said no. Does that mean there were no other factors in this proposal other than economical supply of dry gas ?

A That was not.

Q Just a minute.

A That is <sup>not</sup> concerned with the situation. That is concerned with the actual facts given me and from that that was prepared. Whether those schemes were economical or whether they were not was not a point of consideration in that report at all. It is merely devising an accounting system of a sharing basis to comply with the object of the Act and I was not required in preparing that to decide whether the systems were economical or were not economical.

Q And there was no thought to the mechanics of the matter when this plan was prepared. Is that right ?

A There was no thought.

THE CHAIRMAN: Do you mean when the market sharing plan was evolved ?

A There was no thought definitely.

Q MR. FENERTY: There was some thought.

A There was no thought.

Q Of the economical position ?

A When the share basis proposal was being prepared.

Q That is what I wanted to get at. There was no thought of that.

DR. BOOMER: In other words were the market share plans



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H. LeM. Stevens-Guille,  
Cr.Ex. by Mr.Fenerty.

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based on the physical factors ?

A That is correct.

Q MR. FENERTY: And the interests of the various owners, you have mentioned them ?

A They were considered within the framework of the physical set-up that existed.

Q And the oil operators and the various owners of the gas cap areas?

A And also the consumers in the conserved gas supply.

Q Now then we have when this was set up, you have the existing position where the wells were drilled, where the gathering lines are, where the absorption plant is, where the scrubbing plant is, and what was being done I take it is making the best of that situation ?

A Working out the practicable system to handle that situation.

Q But with no thought of the economical handling of dry gas. That is what you have just told me ?

A That is correct in preparing that.

THE CHAIRMAN: I may be wrong, but I think you are discussing this thing from two different angles. If I apprehend you correctly, Mr. Fenerty, you are inferentially criticising the set-up at the south end of the field whatever it may be and Mr. Stevens-Guille is trying to say I found four or five factors, how they were arrived at I do not care, but I found those five factors and in using those five factors I prepared what I thought was the most equitable way of sharing the market arising out of those factors, but disregarding whether the scheme in the south end of the field was a good one or a bad one. I think that is possibly where there is some conflict between you.

MR. FENERTY: No I was not intending to criticize. I do





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not think the way this thing is worked out in sharing the market is our concern except in so far as any one wants or later will suggest that the consumer should pay something because it was not the most scientific and economical way of handling dry gas. If I can get everybody to agree with me that the increased cost of repressuring gas in the B. A. instead of putting it into the mains in the winter is a problem between the oil operators and wet gas operators and is nothing to do with us I am satisfied. In other words I am trying to suggest to the Board that these increased costs involved in some ownerships between parties and incidence of oil operators, and wet gas operators are not properly chargeable to the dry gas end of it. They would not run it this way if they were. They are charging at the other end. I am not criticising the way of handling as long as they do not charge us with the expensive way of handling it.

Q MR. FENERTY: Now we will just leave that. Now then Mr. Stevens-Guille, coming to your column 15, page 10, forget about the B. A. altogether. Coming back to this, pardon me, page 3, that is where you referred to this plan, allowing residue gas from crude oil wells to enter in excess of their share position. Now the alternative being the cost of repressuring ?

A Or flaring the gas.

Q Now we eliminate the cost of repressuring the gas. We assume for the moment we are going to embark on this plan and allow the crude oil wells to enter the market in excess of their sharing position and as a result of them doing that the idea is that the Royalite Company, yes the Royalite Company will receive some compensation for not producing in the market ?

A That is correct.

Q I am not criticising that, but there is going to be an expense,





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namely the compensation to Royallite attached to those crude wells over producing as compared to their market sharing position, is there not. That is what has to be paid to Royallite.

THE CHAIRMAN: Is that not why the Legislature passed this Statute, because it was necessary to do that ?

MR. FENERTY: That is quite right. That is what is going to happen, all right.

Q Now we are going to have an expense in the amount paid Royallite which will enable the crude well owners to make a market of their product, the dry gas ? Are they not ?

A Yes.

Q And in doing that they will also have the benefit of the gas lift for their crude oil ?

A That will continue, yes.

Q And they will have the benefit of the 20% residue or whatever it is from gasoline content to the absorption plant ?

A You mean the revenue from that gasoline ?

Q Not revenue but the residue down stream from the operator they will have first of all the gas lift ?

A Yes.

Q To get the oil through the separator and they will get their oil production and down stream to the absorption plant and they will get their 20% or whatever their contract calls for ?

A Yes.

Q And finally they will have a market for the gas which is in excess of their market sharing position ?

A That is correct.

Q And I suggest to you in any commercial undertaking of any kind the expense of making a market for a product falls upon the

1. The first part of the paper is devoted to the study of the

properties of the function  $f(x)$  defined by the equation

$$f(x) = \int_0^x \frac{1}{1+t^2} dt.$$

It is shown that the function  $f(x)$  is continuous and

differentiable on the interval  $(-\infty, \infty)$ .

2. In the second part of the paper we consider the function

$$g(x) = \int_0^x \frac{1}{1+t^2} dt.$$

It is shown that the function  $g(x)$  is continuous and

differentiable on the interval  $(-\infty, \infty)$ .

3. In the third part of the paper we consider the function

defined by the equation

$$h(x) = \int_0^x \frac{1}{1+t^2} dt.$$

$$h(x) = \int_0^x \frac{1}{1+t^2} dt.$$

It is shown that the function  $h(x)$  is continuous and

differentiable on the interval  $(-\infty, \infty)$ .

4. In the fourth part of the paper we consider the function

$$k(x) = \int_0^x \frac{1}{1+t^2} dt.$$

It is shown that the function  $k(x)$  is continuous and

differentiable on the interval  $(-\infty, \infty)$ .

5. In the fifth part of the paper we consider the function

$$l(x) = \int_0^x \frac{1}{1+t^2} dt.$$

It is shown that the function  $l(x)$  is continuous and

differentiable on the interval  $(-\infty, \infty)$ .

6. In the sixth part of the paper we consider the function

$$m(x) = \int_0^x \frac{1}{1+t^2} dt.$$

It is shown that the function  $m(x)$  is continuous and

differentiable on the interval  $(-\infty, \infty)$ .

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person seeking to sell that product, does it not ?

A In free competition, yes.

( Go to Page 2368 )





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THE CHAIRMAN:                   What I thought, Mr.Fenerty, was that  
I always paid.

MR. FENERTY:                   Well we are trying to introduce a  
new order.   Now, one thing more and I am through.   Perhaps  
you will want to express an opinion on this.....

THE CHAIRMAN:                   Mr. Fenerty, please do not think that  
because I have interrupted once or twice that I want to curtail  
your cross-examination.   Take all the time that you feel you  
should, please.

MR. FENERTY:                   You have not interfered with my  
trend of thought.   I am just about through.   Just a minute  
until I read my own writing a minute.

Q   And the real problem, Mr.Stevens-Guille, in working this thing  
out is, is it not, that applying the present day problems to  
a field that has been operated as an oil production field,  
for close to 30 years, that is where all your problems come  
toward gas production, is it not?

A   No, that is incorrect.   It has not been produced as an oil  
production field for nearly 30 years.

Q   Naphtha and oil?

A   It started as a gas producing field.

Q   Naphtha and oil?

A   With naphtha, and then it passed to crude oil.

Q   Well, say about 20 years?

A   About 10 years.   But it started as a gas producing field,  
not a crude oil field.

Q   Do not let us quarrel with that, I will take fifteen years  
is you want to?

A   Ten years is the actual fact.

Q   What?





H. LeM. Stevens-Guille,  
Cr. Ex. by Mr. Fenerty.

- 2369 -

A Ten years is the actual fact.

Q We will say ten years. There is where your real problem arose, and you are asked to do the best you can with an oil field, is it not?

A I do not know that the problem would have been any different if the ownership was what it is today, and we were going to measure the market at an earlier stage in the field's history.

Q I see.

A I mean I have not given it any consideration other than the brief minute here, but I do not immediately see any great difference.

Q Now, one thing more, and perhaps it is not in your field, but I would be interested in your views if you have any. As I understand the situation, consideration in this inquiry is going to be given to prices to be paid for gas, and the amount of gas in the gas reservoir has been considered and is going to be a factor, I think we are all agreed on that, it is going to be a factor in this inquiry, the gas and the reduction of gas in the gas reservoir, the question of whether or not there should be increase or decrease in price will be considered, you appreciate that?

A No, I do not think I follow that point.

Q Perhaps you think it is only a question of increase. Let us say there is a question of increase because of the amount of gas in the reservoir, which will be considered in the course of this inquiry?

A Do I understand you right, you mean there will be an increase because there is going to be an increase in the reserves to be available?

Q We understood there is going to be a decrease. Probably



H. LeM. Stevens-Guille,  
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- 2370 -

both are wrong. I do not want to make it too involved but we will start over again. We have had evidence here that there is a certain gas reserve in the gas field?

A Yes sir.

Q We have evidence, I think we have evidence, or it is a matter of common knowledge, that there is a very substantial part of the original reserves that has disappeared?

A That is correct.

Q And that in disappearing a very substantial part serves no useful purpose other than as an incident of oil and gasoline production?

A That is correct.

Q Now I am going to abandon the whole question. I do not think it is a fair one to put to Mr. Stevens-Guille. It is a problem in economics and not engineering?

A I appreciate your consideration if it is outside of my sphere.

Q DR. BOOMER: Mr. Stevens-Guille, when you assume that there are no repressuring facilities at the British American plant, would it not be necessary for you to put in more repressuring facilities than you have now at No. 1 plant in order to avoid flaring?

A Assuming we were to handle the B.A. gas in the same way, for example as the crude oil?

Q Yes?

A That is correct.

Q Assuming that it produces the Brown allowable in the usual way and there is going to be no way to flare, if you do not have repressuring equipment at the British American?

A That is correct.





H. LeM. Stevене-Guille,  
Cr. Ex. by Mr. Fenerty. - 2371 -

Q Will you have much capacity?

A Are you assuming that the same wells produce the gas cap?

Q As they produce it now?

A It will produce the whole of their allowable in the course of a year.

Q Yes, it will produce the whole of their allowable.

A Yes, I think in general the same amount of equipment would have had to be installed without going into the details of unit sizes and so forth.

Q It would be roughly the same?

A We could have one more of our units converted during the summer.

Q Would the conversion of one more of your units during the summer handle the problem of gas from the British American area?

A I do not think so, sir, because I understand over here they have 13 million capacity and use all of it, whereas the conversion of one unit would increase Madison's capacity some 8 million cubic feet.

Q That is all.

THE CHAIRMAN: Mr. Blanchard, anything?

MR. BLANCHARD: I may have a question or two to ask of Mr. Stevens-Guille. Mr. Hamilton has been suggesting them to me, but so far I cannot understand them, so that I think I had better postpone my questioning until later. There is one question arising out of the questions Dr. Boomer asked the witness. Did you not when proposals "A" and "B" were submitted give some evidence as to the increasing costs by reason of the re-pressuring in the South end?

A Increase in the re-pressuring costs?

Q By reason of the re-pressuring in the South end?

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H. LeM. Stevens-Guille,  
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- 2372 -

A Do you mean in the shape of a comparison of our Scheme "A" against Scheme "B" plus the Madison proposal?

Q Yes, that is my recollection?

A Yes, I believe you are right but I have not got a certain memory of it.

Q That will be in the record earlier?

A Yes, that will be in the record earlier if we did so.

.....

CROSS-EXAMINATION BY MR. STEER:

Q There is a question, in the light of what has taken place, I think that ought to be investigated, and perhaps I can put it to Mr. Stevens-Guille, and if he is the proper one and this is the proper time to discuss it, perhaps it should be done. I am going to suggest to you that the B.A. plant, the wells connected with the B.A. plant, should produce their allowables at the time of large demands?

A You are talking of the gas cap wells?

Q Yes?

A Yes.

Q Produce their allowables at the time of the peak demand in the winter time, and then close in in the summer after their allowables have been produced. What effect would that have upon the expense of operating the system?

A Well I believe..... I do not think possibly that I am the right person to make the statement, but my understanding is that that is what they propose to do.

Q DR. BOOMER: That is the policy that is being worked out.

MR. STEER: I see.

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H. LeM. Stevens-Guille,  
Cr. Ex. by Mr. Steer.

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DR. BOOMER: It has always been the intention to do that.

MR. STEER: I see.

A WITNESS: Our system here makes it quite possible to handle it that way.

Q THE CHAIRMAN: Mr. Stevens-Guille, are there any crude oil wells which are not connected to the Madison system because of their low pressure?

A Yes, that is so.

Q If it were necessary to produce instead of conserving gas cap, are there gas cap wells which could not get into the Madison system because of the pressure?

A I think every gas cap well could produce a certain volume against the present line pressures.

Q And are the figures shown in your computation for sharing the market based on that, or are they based upon the factual allowables?

A In the actual, do you mean?

Q Yes, are they based upon the factual allowables?

A They are based on the factual allowables, whatever the actual Board Order is.

Q Would not it be proper to make some allowance for those wells which could not produce those factual allowables?

A I think that that has been done, as I mentioned before this morning, and is currently reviewed and at this time is under review. I cannot state and I do not want to be understood as saying that there are any gas cap wells which have got an allowable today greater than that which they can produce, because I am not certain of that.

Q What has struck me in the last few days, and no one has asked it, and perhaps my asking it indicates that maybe I am





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stupid, but why does the absorption plant and the scrubbing plant get fuel for nothing? Why don't they pay for it?

A Are you asking me?

Q Yes, I am. I think we are going to adjourn, and you can think it over.

A The answer to it I know right now, Mr. Chairman. That is the common practice of the interests throughout the whole of the North American Continent.

Q Does that make it good?

A There are merits and demerits to it, sir, and you asked the reason why, and the reason why it is being done, it is followed out in practice.

Q There are some other questions that I have, but perhaps we shall ask them when we resume tomorrow.

MR. CHAMBERS: If the Court please, before we arise, I was thinking of finishing this subject up this week. Now I infer that the B.A. may have some evidence on this question, and I understood that they were preparing something, and it would be helpful to the rest of us if we had it before tomorrow or before the day that the witness comes in. I am not trying to be unduly complimentary to ourselves, but we at least try to furnish these statements ahead of time.

MR. FARVIE: As far as that is concerned, we have been preparing our submission for some time, and it was just Friday that we got the new revised scheme, and we have been going over it, because we do not want to duplicate steps that have already been made. We have had it prepared and we are going to deliver copies around town, and I propose to do so. That is subject to the fact that we have not read it or examined it and there may be changes.





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MR. CHAMBERS: Yes.

THE CHAIRMAN: Before we rise, may I ask if you have any more cross-examination of Mr. Stevens-Guille, Mr. McDonald?

MR. McDONALD: Not unless it arises out of what the British American puts in, and if he comes back into the witness box.

THE CHAIRMAN: As I said, I think perhaps we have one or two questions to ask in the morning. We will do that first and then we will hear your motion.

MR. CHAMBERS: I have a few questions in re-examination. Not very many, Sir.

MR. HARVIE: Then I presume we will give our submission following that?

THE CHAIRMAN: Unless Mr. Chambers is making his submission for Royalite.

MR. CHAMBERS: I beg your pardon.

THE CHAIRMAN: Unless you are making a submission for Royalite on the sharing.

MR. CHAMBERS: Not now. I will bring it in later.

(The Hearing was then adjourned to 9.30 A.M. June 27th, 1945).











